

# Nation's Business

A USEFUL LOOK AHEAD

MARCH 1964

## OUTLOOK FOR THE BOOM: RISES AND RISKS

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looks at  
tomorrow's customer

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**PETER DRUCKER**

on  
marketing

**PAGE 80**

## YOU'LL LIVE LONGER

An interview with Dr. James A. Shannon,  
leading medical researcher **PAGE 104**



# 122.9 mph economy run

Evinrude's Starflite 90-S grew out of a racing theory . . . into the most efficient outboard motor ever built.

The dramatic test came on Sept. 16, 1960.

Hu Entrop drove his hydro, powered with an Evinrude V-4 to a new world's speed record, 122.9 mph! The record still stands.

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DIVISION OF OUTBOARD MARINE CORPORATION

# STARFLITE 90-S<sup>by</sup> EVINRUDE



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the cost of contacting  
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**Answer: Use Long Distance  
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This strategy is working for many firms. Why not make it work for yours?

**BELL TELEPHONE SYSTEM**



Talk things over, get things done...by Long Distance!

# Nation's Business

March 1964 Vol. 52 No. 3

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Washington, D.C.

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The use of diesel power in heavy-tonnage trucks has soared more than 400% in less than ten years. Reason: cost-conscious operators proved conclusively that diesel power drastically slashed their operating costs. As more and more heavy-tonnage truckers switched to diesel, a growing number of medium-tonnage truck operators asked the question, "Why not diesel savings in the medium-tonnage range?"

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**The Power You Need For The Loads You Carry!** Two ratings are available—150 and 170 h.p. The 150 h.p. engine is standard in GMC models with up to 24,000 lbs. GVW; 42,000 lbs. GCW. The 170 h.p. version is optional at extra cost in these models, and standard in models rated up to 39,000 lbs. GVW; 45,000 lbs. GCW.

**Maximum Durability!** TORO-FLOW is built to save you money for a

long, long time. It features a simplified fuel system, positive rotation of both intake and exhaust valves, up to twice the cooling capacity, and up to 20% greater oil flow than any other diesel engines in the medium-tonnage range. These are just a few examples of the durability GMC Truck builds into this engine so you can get more out of it!

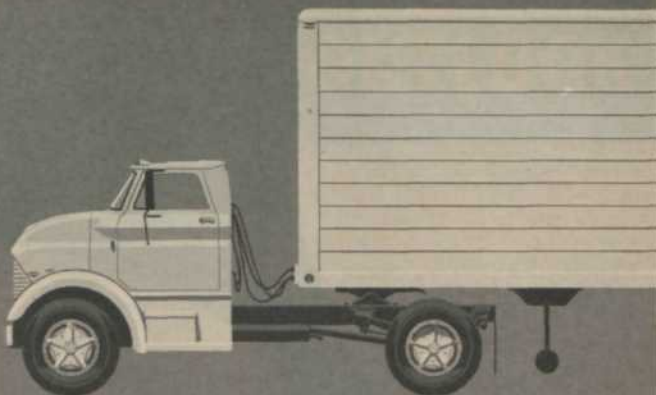
**Parts And Service Readily Available!** Parts and service for GMC TORO-FLOW diesel engines are immediately available through GMC's nationwide network of dealers. In addition, there are 30 General Motors Training Centers completely equipped and ready to train your service personnel.

Ask your GMC Truck Dealer to show you how and why TORO-FLOW can cut trucking costs. Call him today!

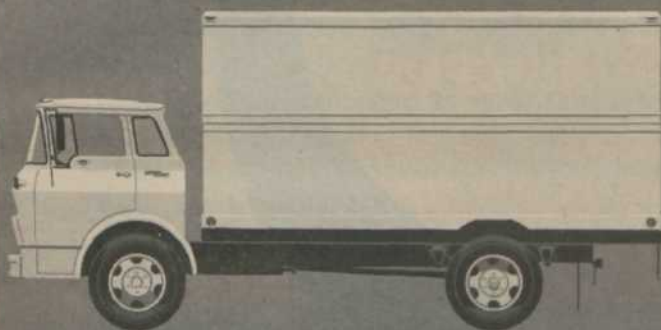




1



2



3



4

## THE WIDEST SELECTION OF MEDIUM-TONNAGE DIESEL TRUCKS IN THE INDUSTRY!

Pick the *TORO-FLOW* model that meets your exact needs and you'll find that it handles and operates virtually the same as its gas-powered counterpart. It starts, it steers and it shifts with the ease that has become traditional with every GMC Truck—gas or diesel. A short demonstration drive proves it! Which *TORO-FLOW* model can your GMC Dealer discuss with you?

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**3. Steel Tilts**—GMC steel tilts with exclusive *TORO-FLOW* power offer such outstanding advantages as maximum front axle loading, ideal weight distribution and unsurpassed maneuverability. They set the pace for savings in petroleum, lumber and other applications requiring trucks in the 15,000-27,000-lb. GVW and 35,000-45,000-lb. GCW class.

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Please send me a copy of the booklet, "A NEW ROUTE TO MEDIUM-TONNAGE TRUCK SAVINGS."

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**Firestone** **TRANSPORT-100**  
New High Performance Truck Tire



# WASHINGTON BUSINESS OUTLOOK

## **Business at election time** will be good.

In Washington you pick up this comment all over town.

Here's gauge of growth prospects as seen by best forecasters:

Between now and election time—eight full months of growth—business will advance as much as it did all last year.

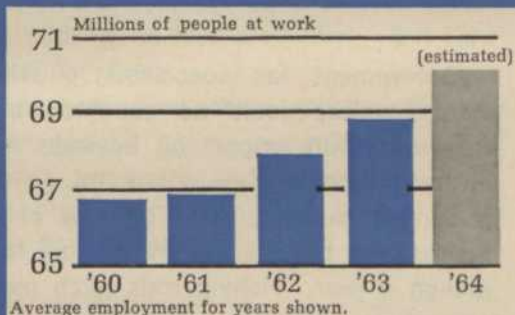
## **There'll be more jobs.** This is sure trend for months ahead.

Number of Americans at work rose above 70 million last year.

It's expected to exceed 71 million during peak season this year.

Chart shows how annual averages compare.

Record number of jobs  
forecast for '64



Jobless number this year is expected to be at least 300,000 smaller than average for the past year.

Biggest improvement will show up in jobs for men over 20 years of age.

One out of 10 of today's jobless are young people—age 14 to 19—who have no previous work experience.

It'll continue to be hard for these teenagers to find work.

This will cause many to stay in school longer.

## **Payroll costs will rise.** This will begin to show up importantly in early months to come.

Current situation is this:

Among 21 industry groups, two are paying more than \$130 a week, 13 paying more than \$100 a week.

Auto factories, for example, are paying production workers more than \$140 a week. That's average for all factories. Some workers get more.

For many of these industries, particularly in some regions, skilled workers are hard to find.

Union leaders in some of these same industries will seek higher pay when negotiations come up this year.

In addition, there's a proposal in Congress that would require double pay for overtime work.

Law now calls for time and a half for overtime.

## **Wage-fixing proposals** in Congress will meet strong opposition.

View's widespread on Capitol Hill that proposal to require double pay for overtime will have hard sledding.

Many congressmen don't like the idea, believe it wouldn't work as touted—that it would in fact raise unemployment rather than reduce it.

Backers are strong, will fight hard for passage of this proposal in lieu of another that would shorten legal workweek.

That idea is certain to be shelved by this Congress.

Other proposals would widen coverage of the minimum wage, including hotel, motel, restaurant workers, laundry and dry cleaning, logging, farm-product processing industries. Outcome uncertain. Supporters believe it will pass before summer. Businessmen will put up



strong opposition on ground that it would add to jobless rolls.

**"This prosperity's killing me,"** says businessman.

He notes that more dollars pass through his company.

But this is happening:

On a national scale, corporations after paying taxes netted 26 cents out of each \$10 in sales last year.

This year they can keep maybe 28 cents.

That's money to pay dividends, pay on debt, put back into business for future growth.

It's close to lowest return ever earned on volume.

**Tax reduction** is expected never to show up in revenue totals.

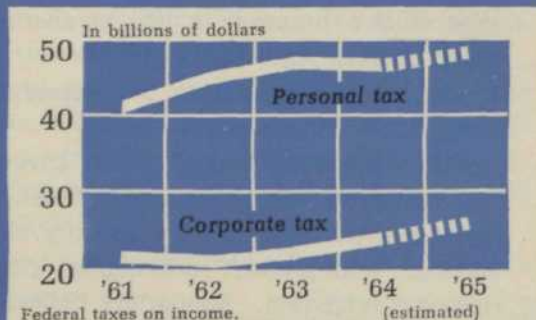
Personal income tax this year will amount to \$47.5 billion.

Treasury's tax specialists look for next year's take to exceed \$48.5 billion.

Billion increase will result from changes in tax law plus higher personal income.

Corporations also will pay more tax. U. S. Treasury estimates more than \$2 billion increase for year ahead.

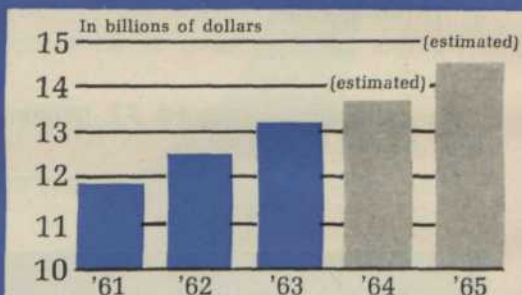
### How government revenue will rise after tax cut



**Excise taxes** won't be cut soon. But—

Thought is being given to possibility of future cuts as next big step to follow income tax reduction. There's also possibility of across-the-board excise tax to replace those on specific products.

### What federal excise taxes take from U.S. economy



Government tax specialists quietly study which excises could be cut first, trying to measure future impact on business and government income.

Sample excises: Taxes on sale of musical instruments bring government more than \$20 million a year. Fishing rods fetch more than \$6 million. Matches are taxed at two cents per thousand except for fancy wooden or colored stems which are taxed at 5½ cents per thousand. This funnels more than \$4 million into U. S. Treasury yearly.

Light bulbs, firearms, cameras, luggage, club dues and initiation fees, phone calls, jewelry, cosmetics, autos and many other items are also taxed.

There are no plans to spring reduction proposals on Congress soon. Present tax rates are to continue. But you can expect to hear much talk about revision possibilities.

House Ways and Means Committee plans to



# WASHINGTON BUSINESS OUTLOOK

start hearings on federal excise tax system next May or June. It'll be first big investigation of excise taxes in many years.

Reminder: This category of federal collections takes nearly \$14 billion out of Americans' pockets this year.

**Rate of business expansion** may slow soon—but not for long.

This is a preview of next business news you'll get from Washington.

What's back of it is this:

Winter illness, weather, vacations cut into production schedules by keeping people away from their jobs.

In some areas this is sizable.

Nearly a million, for example, are away because of sickness.

More than 400,000 are on vacation.

Another 30,000 plus stay away from work because of labor disputes.

This adds up to less production. But slowdown is temporary.

Comparison: First three months will see an estimated \$4 billion expansion in rate of production for goods and services.

Next three months will see output go up at least \$10 billion.

**Trend-trackers see changes** coming in world trade.

Imports, Washington specialists believe, will rise substantially by end of this year, rise going into next year as well.

Both imports and exports will be setting new records for volume.

What's back of import rise?

Economists studying world situation think good business conditions here will attract more foreign goods at same time U. S. exporters will find selling harder in many overseas countries.

Government will step up export promotion activities, try to counter these problems by providing more foreign market information to American businessmen.

**Try this test:** Can you name America's best foreign customers in order of importance?

Some changes are taking place so be prepared for some surprises.

Canada continues to hold unchallenged first place, buying more U. S. goods than any other country.

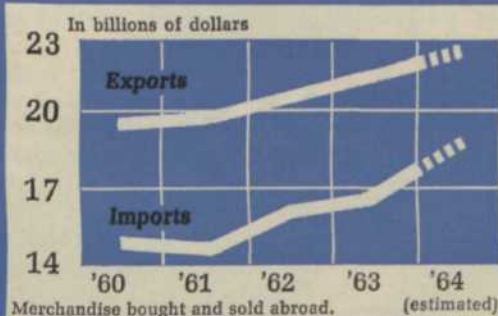
Japan is in second place. No change.

Here are the others, ranging from three to 10. They're mixed up. Try listing them in order of volume. Then check your score below.

— Mexico	— United Kingdom
— France	— Italy
— Netherlands	— West Germany
— Belgium-Luxemburg	— India

New order: United Kingdom is third, then come West Germany, Italy, Mexico, India, Netherlands, France, Belgium-Luxemburg. Recent changes: United Kingdom buys more than West Germany, which formerly was third. Italy has moved ahead of Mexico. India and Netherlands have switched places. Belgium-Luxemburg are tenth, replacing Venezuela which is no longer among top 10 customers.

Imports expected to rise sharply





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**TAILOR-MADE.** This confidential report is not taken off the shelf. It will be prepared specifically for you, based on the requirements for your new plant as you give them to us. Send these requirements on your business letterhead to Commissioner Keith S. McHugh, N.Y. State Dept. of Commerce, Room 356R, 112 State St., Albany 7, N.Y.

*Keith S. McHugh*

Keith S. McHugh, Commissioner  
New York State Department of Commerce

## Business opinion:

# School problems pose paradox and dilemma

TO ONE who has devoted most of a lifetime to teaching and school administration, the February NATION'S BUSINESS is stimulating. This letter is a result of that stimulation.

I do not believe in federal aid to schools which would result in federal control (and I doubt if such aid could ever be received without some controls). Therefore I agree with much of the article on page 29, "State of the Nation: The Idiot Response." Conversely, I believe in local control. Therefore I subscribe to the idea that union demands challenge the future of the American education system, as noted on page 68.

Now I emphatically disagree with the article on page 88, "School Gains Prove No U. S. Aid Needed." This poses both a paradox and a dilemma in respect to my other beliefs.

This article states: "The average [teacher's] salary now exceeds \$5,700 per year." Citing averages in no way levels inequities and tends only to obscure the differences. Our top salary for a teacher with a master's degree and 16 years experience is \$5,400 per year, \$300 below the national average for all teachers. In Illinois, there are school systems with ceilings for the masters above \$10,000. They drain our staff of our best teachers; and the process of recruitment not only in Illinois but also in other states leaves us with a continuing teacher shortage.

I would agree with the first of the two points in the conclusion of this article. Citizens in this community "are not only willing but eager to provide well for the education of their children." Currently it is not economically possible for them to do it on the local level. Taxes now are, in the cases of some homeowners, confiscatory.

I disagree with the second point. Because there are few job opportunities in this area, young men and young women go elsewhere to establish their homes. So I would

say that, without outside aid to education from some source, it will not be long until those who grow up here but are employed elsewhere will not be "the best trained and educated you have ever seen." In certain areas boys and girls are being denied educational opportunities necessary to their successful fulfillment of the obligations of American citizenship.

To me, therefore, the question of federal aid is an academic one. It is a question about which all of us may argue pro and con while another generation of students moves through our schools. For them we cannot turn the clock back; we can only hope that someday, probably with the help of federal aid, they will be able to pick up through adult education channels some of what was denied them in their years of formal schooling.

RUSSELL MALAN  
Superintendent  
Harrisburg Public Schools  
Harrisburg, Ill.

Those of us who believe that federal aid to education is wrong know that it will inexorably lead to federal control of education. We have ample precedent for this.

From a list of things we need most, we should not hesitate to exclude a monolithic educational system.

At present, we have many educational concepts. They vie with each other to convince us that each is best.

This constant ferment is the only hope for our survival. Let men be free to challenge the present, and attempt to prove their challenge. Should we ever lose that freedom, we are surely doomed.

We are not concerned that a particular school board will misdirect its efforts. That could, at most, injure but a small segment of our population. But applied nationally, a misguided educational concept would destroy us all.

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comparably low-priced.)

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**P. S.** For very little more, you can get the new extra-traction Sure-Grip truck tire to take you through the softest going with confidence. Ask your Goodyear dealer.



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# Executive Trends

- How to hold valuable men
- Get head start on recruiting
- Do you have an executive militia?

Finding and retaining personnel of excellent quality shapes up as one of the biggest challenges your business will face in the next few years.

All signs point to vigorous competition for employees with the right abilities and the capacity to handle progressively more demanding jobs.

The problem is acute not only in business, but in other fields.

The Air Force, for example, keenly feels the need to attract, develop, motivate and hold competent people. To find out what industry is doing to achieve these ends, the Air Force made an on-the-spot study of the techniques used with success by 62 major firms. Findings include these general guidelines:

Companies successful in attracting capable employees develop and project an image as a good place to work; recruit extensively, using some of their best people as recruiters; avoid overselling the company to new employees or making promises they can't keep; utilize periodic performance reviews; pay fair and competitive wages and salaries, and conduct well developed training programs.

Companies which have enjoyed success in retaining able people stress supervision based upon competent and fair-minded leadership; encourage self-development; promote from within; use merit and accomplishment, rather than seniority, as the basis for advancement, and provide an informal and professional environment—especially for professional workers.

You can get more details from "The Indispensable Weapon," a new Air Force pamphlet summa-

rizing the study. Pamphlet (Number 30-3-1) is available at 40 cents a copy from the U. S. Government Printing Office, Washington 25, D. C.

• • •

Many businessmen may become migratory workers in the next 10 years.

This opinion was expressed, in part facetiously, by speakers at a recent conference which took up significant changes in business organizations and the men who run them.

Andrew F. Kay, president of Non-Linear Systems, Inc., commented that we are producing a new proletariat of migrant workers—engineers and other technical personnel who move from company to company as defense contracts change in skill areas where they are proficient.

Prof. Harold J. Leavitt, a specialist in the psychology of administration, countered with the observation that the future may see more of this kind of movement on a general basis; elaborating, he explained that even generalists may come to comprise a migratory class as a result of rapid shifts in industry and a high demand for managers.

Note: Professor Leavitt foresees a day when personnel executives will have to know much more about human thinking and problem-solving, and when their knowledge of the company's complex relationships within the community will broaden.

• • •

You should start now if you want to nail down some of the best members





**MEET 2 OF THE 89,000 PEOPLE  
BEHIND THE FIRST JAPANESE TURBINE  
EVER SOLD IN THE UNITED STATES**

Mr. Chikara Kurata, Chairman of the Board (seated) and Mr. Kenichiro Komai, President, Hitachi, Ltd., the most dynamic industrial force in the Orient. Hitachi is Japan's largest manufacturer and 16th in the world outside of the U.S. Out of its 72 factories staffed with 89,000 people come some 10,000 basic products. The most notable among these is the turbine.

After the Clear Creek Power Plant in California went into operation, Mr. Kurata visited the installation. There he saw two Hitachi 93,500 hp vertical shaft turbines supplying electrical power for people and industry in the United States.

Clear Creek was a milestone for Hitachi. Since then the company has received orders for two 41,500 hp hydraulic turbines for the Blue Mesa Power Plant in Colorado, eight 68,400 hp pump turbines for a reclamation project in San Joaquin valley in California and four transformers totaling 860,000 KVA for Los Angeles.

Although these projects mark Hitachi "firsts" in the U.S., similar installations can be found throughout Central and South America, the Middle East, Africa and Southeast Asia. In the El Mex desert area outside Alexandria, Egypt to mention just one example, stands one of the largest pumping stations in the world. It is Hitachi designed and Hitachi equipped.

Walk around the industrial complex that is Hitachi located outside Tokyo and you are likely

to see just about any product you can mention if it's powered by electricity, including a complete range of household appliances. You might see a bullet-shaped train under construction. This is the Hitachi Superexpress which streaks down the tracks at a phenomenal 155 mph. It is scheduled to go into operation on the Tokyo-Osaka run in 1964. When it does a new era in railroading will have opened.

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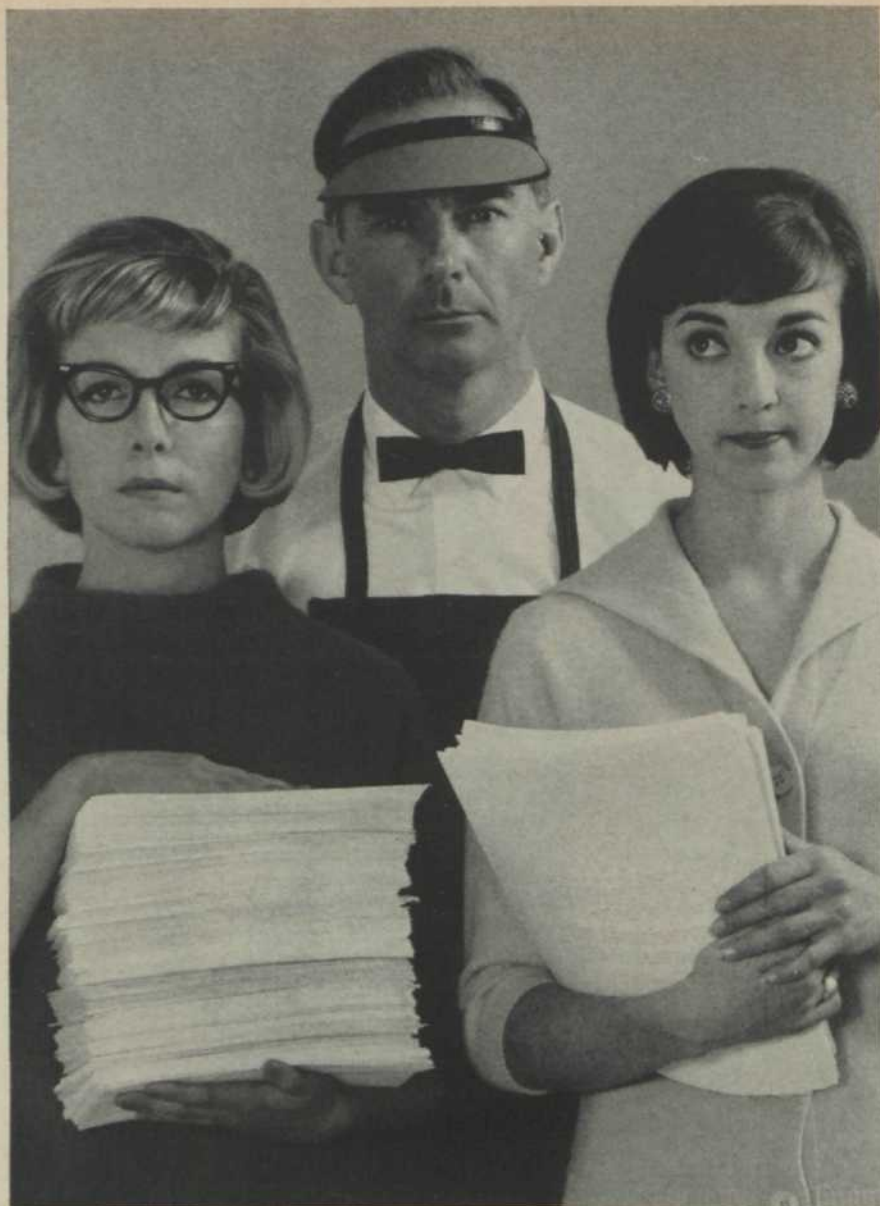


**Hitachi, Ltd.**

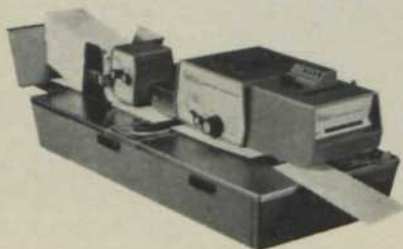
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## EXECUTIVE TRENDS

*continued*

of next year's college graduating classes.

Recruiting—especially for engineers, scientists and other technical graduates—has grown so competitive that a company must allow months of lead time to arrange productive campus visits.

Since the mid-'50s, when American companies began screening college students intensively, successful recruiting has increasingly become a matter of getting your bid in early. This means putting recruiting teams on campus in the fall if you want to tap a young man who will graduate the following June.

Some of this June's graduates are still available, but many were swooped into the corporate (and government) nets as long ago as last autumn. The holdouts, according to Robert F. Herrick, executive director of the College Placement Council, Inc., include students who are taking time to look over a variety of offers—just to make sure they've seen everything.

• • •

**Do you have an executive militia in your company?**

That's a term one student of business organizations uses to describe the men top management turns to when things go to pot in the company.

Some studies suggest that most companies have a hard core of employees, at all levels, who are called upon to handle emergency situations. They are not necessarily prominent names on the organization chart, but rather a kind of shadow management comprising both company officials and trouble-shooters without portfolio.

• • •

**Job location** ranks higher than salary as an item of preference among college graduates who are being wooed by business.

Company recruiters report this, and they are backed up by surveys made by placement experts.

Since starting salaries tend to be roughly equal in many jobs, this accounts—at least in part—for the fact that graduates rate salary relatively low. Items which get high ranking, apart from an attractive geographical location, include foreseeable opportunities to advance with a firm and appealing company policies.

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## EXECUTIVE TRENDS

*continued*

eign operations are stepping up their efforts to hire foreign nationals studying in this country. These same companies also are urging their foreign branches to do a better job of finding likely prospects on foreign campuses. There is not much evidence yet of foreign firms recruiting on American campuses.

• • •

Realistic business games have produced some surprising results in schools where they are now in use.

Consider what happened at the Carnegie Tech Graduate School of Industrial Administration.

Tech's business students are divided into six make-believe companies in the soap and detergent industry. Using a computer, they fight for markets, trade their securities on a student-run stock exchange, negotiate union contracts, issue annual reports and chronicle their activities in "*The Tech Street Journal*."

Competition among the simulated companies recently became so heated that it created a problem for school authorities. Through astute, if questionable, manipulations, the managers of one company came close to cornering the market. The problem was resolved when a faculty member (who doubles in brass as attorney general of the mythical state in which the companies operate) stepped in, indicted the managers of the monopoly-minded firm and levied fines for violations of stock market regulations.

Dean Richard M. Cyert of Tech's Graduate School of Industrial Administration regards business games as an important advancement in training. But he concedes they are not the last word. High on his list of future educational aids for business students is an apprenticeship program under which students will have the opportunity to serve temporarily in executive suites of major companies. There, Dean Cyert hopes, they'll be able to observe actual decision-making and problem-solving at first hand.

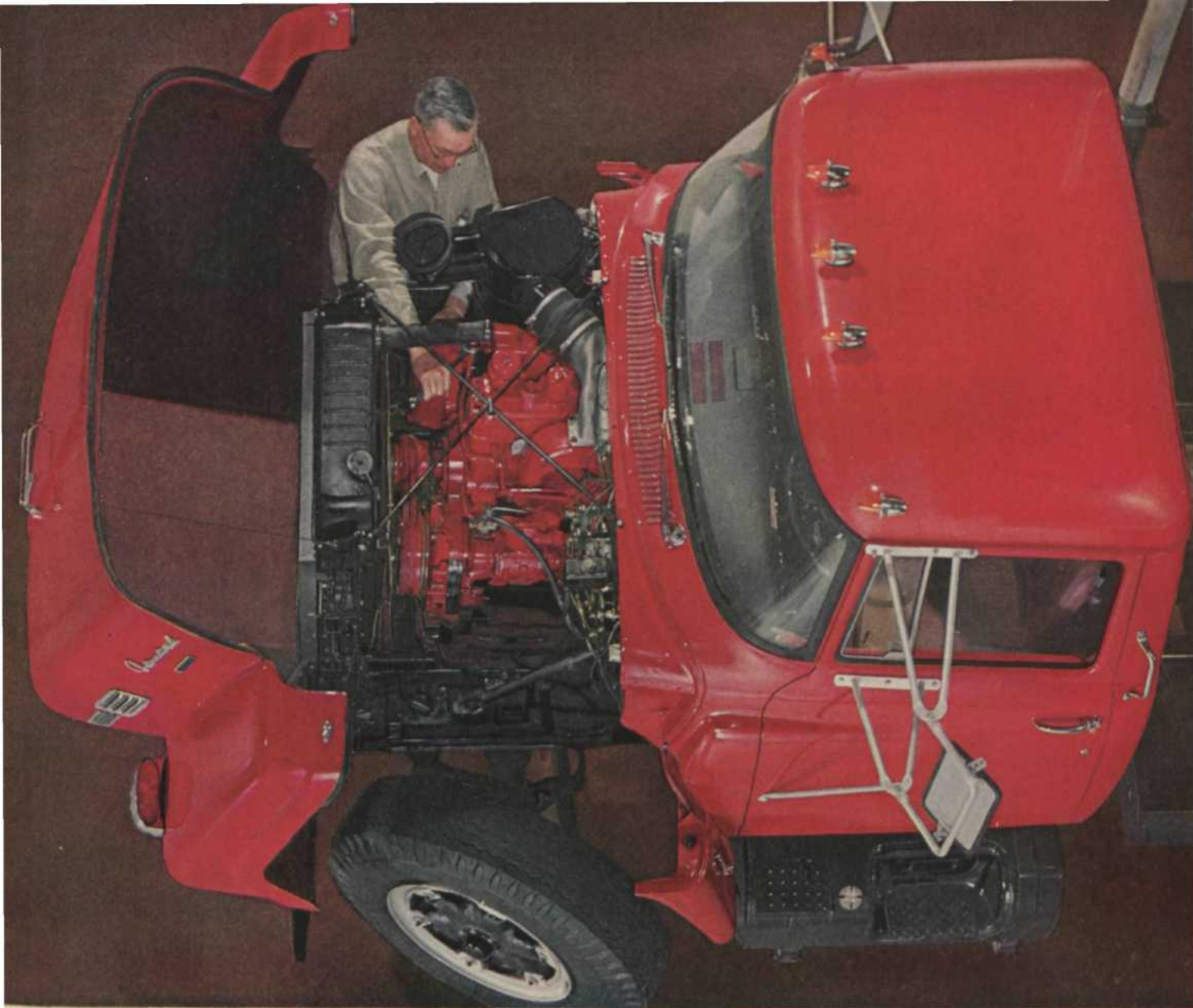
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(continued on page 21)





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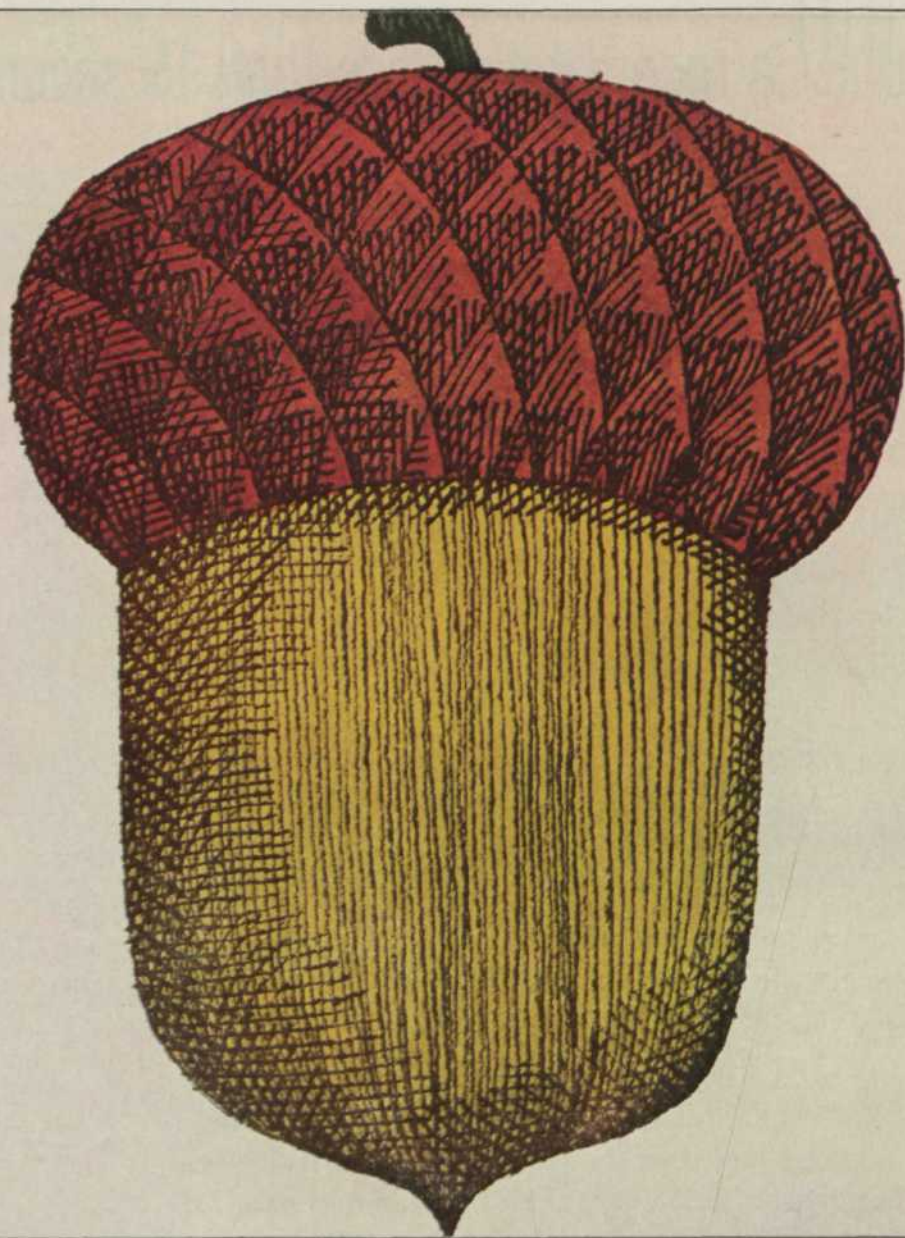
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## EXECUTIVE TRENDS

*continued*

a network of retail outlets in the South. Last year he hired two new men to manage two of the company's outlets. Both men came from larger organizations where executive development was a fully rounded, ongoing activity.

The difference?

The two men from training-conscious firms accounted for \$5,000 of \$12,000 collected in a company-wide drive on past-due accounts.

• • •

**What counts most in getting ahead?**

This was one of the key questions for which researchers sought an answer. You'll find a report on their three-year investigation in an article beginning on page 56.

• • •

**How far can a computer go in managing a company?**

Researchers at the University of Michigan are trying to find out.

Led by Dean H. Wilson, director of the university's Industrial Systems Laboratory, the researchers have been cranking factors involved in daily decision-making into a computer model of a small wholesaling firm, whose president agreed to cooperate in the experiment.

When complete, the computerized model should be able to predict not only whether certain decisions will bring growth or a decline in earnings but also the magnitude of the change.

The results so far convince Mr. Wilson that he and his associates are on the right track. Profits of the company have turned up and advanced at computer-predicted rates.

The experimenters concede that their efforts haven't yet doomed the role of the company president, nor are they likely to. They do feel, however, that their experimentation can lead to automating many of the functions of small firms. Conceivably, says Mr. Wilson, the future could bring automation of decisions on whether to introduce a new product.

How did the research team talk the owner of a business into putting his firm at the mercy of a computer run by academicians? The company was losing money, and the president also owned a profitable manufacturing firm, explains Mr. Wilson.

So far the cooperative businessman hasn't volunteered to risk his profitable factory in the interest of research.



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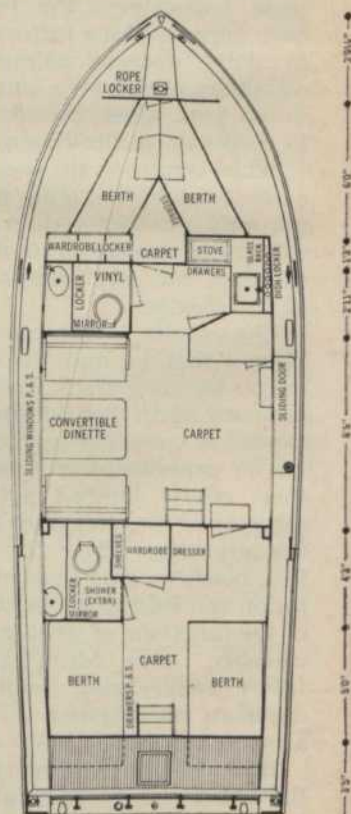


This boat offers all the advantages of boats costing over \$5,000 more. Here are some of them:

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3. The owner's stateroom, aft, is definitely not a cubbyhole, has large twin beds with box springs and foam mattresses, wardrobe, dresser, and an adjoining lavatory which may be equipped with shower. A door opens to the cockpit.

4. As much thought went into the decorating as went into the building of the boat. All three cabins have draperies, full paneling, carpeting, and headlining as standard equipment. Rich wood finishes are color-coordinated with durable, stain-proof fabrics.
5. Topside, the sundeck offers 360° visibility for both helmsman and passengers.
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## Economy drive greeted with mixed emotions

BY JAMES CRAFT

PRESIDENT JOHNSON'S drive for economy in government has galvanized Washington. The reactions range from ecstatic to anguished to bitterly cynical, but everybody is taking notice. In probably no other area of endeavor will the President's performance be measured against his promises more carefully.

There are two main reasons why this economy drive has captured the attention of politicians and bureaucrats alike. It is in this field that Mr. Johnson at least appears to have departed most sharply from the course followed by recent Democratic Presidents. It is here that he is making his pitch to thousands of conservative voters long dissatisfied with liberal open-handedness—and it is here that he is bringing dismay to the Republican opposition by damping down the spending issue long before the campaign begins.

Second, he has shaken the Capital by taking his message right down to the federal workers themselves. He has served notice that the ever-upward march of government employment figures is to be halted and at least a token reversal made. He has warned that he wants a dollar's value for every dollar of the taxpayers' money spent and that a time of severe budgetary stringency is at hand. Even the most hard-bitten veteran of past economy programs has been shaken by the fervor and persistence of the Johnson message.



The most impressive exhibit offered by the President to support his frugality vows is, of course, his \$97.9 billion budget for the fiscal year beginning July 1, 1964. Certainly it is easy to punch holes in that document. A number of clever devices were used to make spending seem smaller than it is likely to be and to make the contrast with President Kennedy's last budget more striking.

It is almost certain (and high-ranking administration officials admit it privately) that spending will wind up higher than the budget predicts. Some agencies are bound to overrun artificially low limits set for them; Congress will reject some of the

President's proposals aimed at minimizing spending figures; the customary election-year spending pressures on both the White House and Congress will have their effect. The Johnson figures could begin to crack by late summer or early fall, or perhaps, as some observers expect, the President will be able to keep the lid on until after election day.

But all the criticisms still do not mean that the President's economy talk is empty or that his budget is meaningless. The fact is that since his first days in the White House he has been consistently and aggressively pursuing the economy line in word and deed. Whatever his motives—whether he was trying to smooth the congressional path for the tax cut bill or seeking conservative votes in November or

GEORGE LOHR



*Swarms of federal employees on Washington streets would be thinned if payroll-cutting goal were reached*

simply following an honest conviction—some of this effort is bound to bear fruit.

The pressure is unending. In practically every speech, the President includes some reference to frugality and saving. Nearly every White House visitor is told how the President carved away at the budgetary requests sent in by the federal agencies. It may have been huckstering to put on the cover



## TRENDS: WASHINGTON MOOD

of the official budget summary pamphlet the Johnsonian pledge that "the government will get a dollar's value for a dollar spent," but it was a kind of huckstering that no previous Democratic Administration thought worthwhile in recent years.

In small and large meetings with business groups, the President has been stressing his willingness to give private enterprise a chance to provide the economic stimulus that labor and liberals have always wanted the government to provide by heavy federal spending.

"I am betting," he declared in one such meeting, "that the free economy and private business can do for the economic bloodstream what the government appropriations do. If they can't do it, I know how to spend it, but I am going to give them that chance."

And it's not all talk, by any means. Participants in the budget process say that the President did his cutting skillfully, with sure knowledge of the soft spots in the government's spending programs. After all, he spent some 30 years on Capitol Hill, served on the Senate Appropriations Committee, and has seen at first hand what goes on at federal installations all across the country and all over the world.

While part of the drop in projected military spending represents a shift of outlays from the 1965 fiscal year up into the 1964 fiscal year (one of those devices used to brighten the 1965 budget picture), a very substantial chunk represents real cuts in procurement and research made possible by Defense Secretary Robert S. McNamara's judgment that the U. S. is reaching safe levels in strategic and conventional military strength.

Real cuts are also being made by the closing of military bases and other installations, all despite loud congressional outcries.

And Mr. Johnson has been warning his friends on Capitol Hill that other such closings lie ahead—although they may be delayed until after the election. The President appears grimly pleased with the furore the closings have caused, and likes to emphasize his determination by pointing out that one of the installations being closed is in Texas.

Another sharp cut was in the request for new funds for foreign economic aid, \$1.1 billion below the request a year ago, although actual spending is projected at about the same level as for the current year. Though spending for the space program continues to rise sharply, it still doesn't soar quite as high as had been expected, and some major projects have been stretched out. Despite liberal-labor pressure, no money was included in the budget for any extension of the accelerated public works program. And estimates of civilian federal employment show a drop during the coming year—a slight one, it is true, and one to be brought about chiefly by attrition rather than actual firings.

Mr. Johnson promises, moreover, that further economies will be achieved, that some reductions will

be proposed in the figures sent to Congress. For example, the budget figures on federal employment became outdated between the time they were prepared and the time they were sent to the Capitol. Budget Director Kermit Gordon has said that the agencies indicate still further cutbacks in planned job levels in response to the President's demand for constant paring.

In the long run, the all-pervasive economy mood that Mr. Johnson has succeeded in spreading over Washington may turn out to be more important than the specific budget cuts he has made thus far. His constant preaching, his directives to the agencies, even his dogged determination to cut down the White House electric bill by turning off the chandeliers are having an effect.

There are reports from the vast warrens of federal offices that employees are getting to work earlier, spending less time on coffee breaks, taking less sick leave, generally working harder. Although the plan is to accomplish job reductions by attrition rather than firings, there is a certain uneasiness that is probably healthy. Some agencies reportedly are holding back on promotions that were automatic in the past.

Among many employees, particularly the long-timers, the Johnson program has stirred some bitterness. The President's remark that one out of 10 federal employees was not pulling his weight prompted a federalese sick joke: A hand-lettered sign, "Are You the Tenth Man?" dropped on the desk of a fellow employee.

Some old-timers take a philosophical view: "It will all be over after the election."

But the angry reactions thus far are further evidence that Mr. Johnson's words and actions are being felt, and the result is bound to be good for the taxpayer, whatever turnabouts may lie ahead.

One graphic demonstration occurred when Washington had a 10-inch snow. Federal workers put in a full day instead of being sent home two or three hours early as had been the custom with much lighter snowfalls under previous administrations. This was after the White House was told that early dismissal cost Uncle Sam \$950,000 an hour in unearned pay.

Still another evidence of the economy mood is concern among builders of the many big new office buildings going up in Washington. Until now, any builder could proceed secure in the knowledge that the government would lease all the space he could provide just as soon as it was ready. Now there are indications that the federal appetite for office space may be reduced.

So whatever doubts one may have about the actual figures in Mr. Johnson's new budget and whatever reservations one may have about the motivations behind his economy drive, one must concede there are positive results and that they can be expected to continue. Those who fight for economy in government must keep up their vigilance and pressure—but they can at least take heart that a Democratic Administration has finally begun to talk the same language.



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
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## Election winner will face historic problems

BY FELIX MORLEY

THIS MONTH, with the chaotic New Hampshire preferential primary, the presidential campaign gets into full swing. As always, personalities will play an important role. The Republican candidate will be chosen, and in November the President will be elected, largely on the basis of the competitive images projected.

While this is natural and proper, thoughtful and responsible voters are currently looking deeper than the appearance and photogenic qualities of the various aspirants. Positions taken are being assessed against the problems which the eventual winner will have to confront. And that comparison is healthy, for it quickly brings realization that never before, not even during the Civil War, has the calendar brought a presidential election in which more was at stake.

In 1864 immediate prospects were grim. But there was, during that election campaign, no doubt of the eventual victory of the North. Now it is almost the opposite, with a promising short-range outlook but many reasons for doubt about what lies beyond.

Unsolved problems are especially grave in the international field, where a single fatal mistake or even protracted poor judgment on the part of the President could easily lead to the ultimate disaster of nuclear war. From this—win, lose or draw—there would be no return to life as we know it now.

One thinks of Cuba, Vietnam, Berlin, the Congo. In naming these four trouble spots, by no means all that are acute, we also designate four different continents. Whoever is President, his headaches are going to be world-wide.

In spite of current prosperity the domestic problems that will confront our next President are also far from negligible. Even a partial list must include the racial issue, the nationwide increase in crime and juvenile delinquency, recalcitrant unemployment, protracted deficit financing, ever-rising living costs and undiminished reliance on expanding governmental subsidies.

Behind both the foreign and the domestic difficulties lies the supreme question of whether the structure of our Federal Republic can continue to withstand the strains currently laid upon it. That

may well prove to be the basic anxiety for whoever is elected in November.

Obviously many of the emergencies confronting the nation can only be met by centralized power and at great expense. Equally obviously, our inherited and heretofore successful governmental arrangements are jeopardized by this increasing centralization. Admittedly it now outruns the national ability to cover the cost involved.



*Success of White House occupant, whoever he may be, depends on how well he handles the nation's problems*

The consequence is a schizophrenic conflict between our institutions, designed on the assumption that power will be largely localized, and governmental policies which increasingly demand its centralization.

Much of the uneasiness felt by all thoughtful citizens today is due to this underlying and inescapable conflict. A good way to judge a presidential aspirant is the honesty with which the dilemma is confronted and the discrimination with which solution is proposed.

For many of our problems, both foreign and domestic, there is no easy solution. They interlock in such a way that a forceful attack on one would certainly serve to inflame others. Here Cuba is very much a case in point.

This sort of difficulty, found also in our domestic



problems, has a political moral for every voter. It means that campaign assurances, this year more than ever before, should be received with a measure of skepticism. We all know that those who promise most often deliver least. In the presidency this very human trait is not merely disillusioning, but dangerous.

The root of our troubles, at least in the foreign field, can undoubtedly be traced to the communist challenge. But to make this diagnosis is not to say that any easy remedy is at hand. The Red infection is much more subtle and insidious than is generally realized. Factors like the decay of religious faith, and the failure to teach the principles underlying our own system, have greatly helped the world-wide spread of socialistic thought. It would be ingenuous to think that military measures alone can ever serve to reverse a trend of this character. They are more likely to accentuate it.

Perhaps the worst diplomatic blunder ever endorsed by an American President was the doctrine of unconditional surrender as applied to Germany in the last great war. This meant a vacuum in the heart of Europe, inevitably filled by the adjacent Russians. A somewhat similar attitude towards Japan was of great help to the communists in taking over mainland China.

All this is now irreversible history, which will not be altered by easy retrospective wisdom. But an awareness of what we ourselves did to create our present predicaments is healthy, especially in an election year. It should make us suspicious of any aspirant, for Congress as well as for the White House, whose campaign seeks to stir the blood rather than the brains of voters.

To say this is, unfortunately, to discount the excitement, the color, the race-track atmosphere which are traditional in American politics and certainly serve to arouse enthusiasm. Though neither demagoguery nor narrow partisanship are appropriate at a time of national crisis, they certainly will not be suppressed. The important point is the one voiced by Lincoln immediately after the bitter election of 1864—that what he called the “incidental and undesirable strife” had not clouded the voters’ vision, even in the midst of a great civil war.

In this year’s election, happily, the issue of unconditional surrender can scarcely arise, partly because theoretical communism, at least in Russia, has already surrendered. Mao Tse-tung is correct in saying that Khrushchev has modified Marxist economics out of all resemblance to the original. And while the iron dictatorship of the Kremlin continues we can scarcely demand the elimination of that. There are too many absolute rulers, many of them cheerfully pocketing American dollars, within what we like to call the free world.

A more profitable subject for voter consideration is that all revolutions eventually come to an end. They may bring great and permanent changes, both at

home and abroad. But after a time conditions stabilize on the new basis and many original objectives are quietly forgotten.

Thus, in our own revolution, one important purpose was to liberate Canada, even though the people of that British colony showed vigorously that they did not share the American desire for independence. After a time this objective was discarded, making amicable relations with Britain possible. And, with a few more turns of the pages of history, Canada became in fact almost as independent from London as it is from Washington.

The aim of the much more vehement French revolution was to bring “Liberty, Equality, Fraternity” first to the people of feudalized France and then to Europe as a whole. When Napoleon took over he showed little interest in the original slogans but stepped up the ambition of territorial conquest. All that faded with his disastrous invasion of Russia, which then actively sponsored the amicable return of France to the European community.

While history never repeats exactly there are today many indications that revolutionary communism has run its course in Europe. The European desire to build up East-West trade, to go at least halfway in ending the Cold War, is unmistakable. The French, a people whose leadership has seldom lacked political vision, have gone further, extending the olive branch to Peiping also.

These clear indications that Europe no longer feels itself under American guidance must be taken to heart, not only by presidential aspirants but also by the voters. After all, the relationship between the two is reciprocal. Under a democratic system no candidate can hope for success unless he molds his program to what he thinks the majority really wants.

That, for this country at the moment, is very hard to decipher. All Americans, of course, will say they want peaceful relations with Russia and China, but some will add that this seems impossible without the unconditional surrender of communism. It will not be helpful if this attitude stimulates our European allies to follow a separate course.

It is the fluidity of the present situation which makes it so vital that the present campaign be conducted temperately, especially in the field of foreign policy.

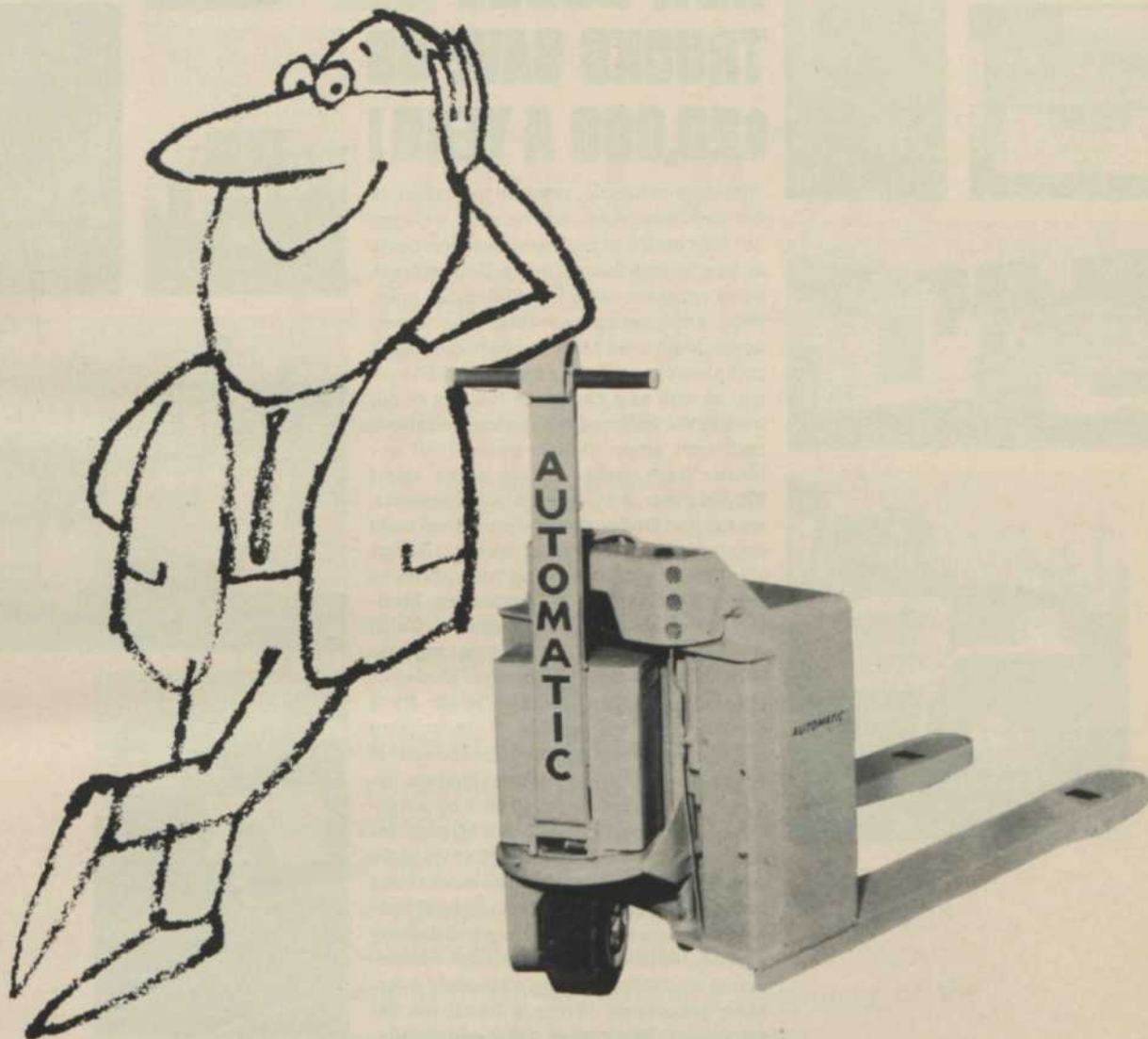
And this is the more true because the first requirement of a campaign is that the candidates assume positive positions. To modify these later may be as imperative as it would be difficult. For none can foretell, on the eve of the New Hampshire primary, what the world scene will be in November.

So the responsibility to keep an open mind in this campaign weighs heavily on the voters, as well as on the presidential aspirants. And, most of all, responsibility weighs on those, in business or the professions, to whom the people look for thoughtful leadership. They are the ones who should take the lead in pointing out that the election of 1964 will be an acid test of our talent for world leadership.

That, and not the glamor of any individual aspirant, is the issue.



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# OUTLOOK FOR THE BOOM: **RISES AND RISKS**

We are riding the strong mount of economic expansion, as President Johnson colorfully pictures the current boom—longest in modern times.

Most economists expect this surge to continue, at least through the remaining months of 1964. What happens will vitally affect your industry, your company, your decisions and your job.

In the five special articles which follow, NATION'S BUSINESS examines closely both the positive and negative charges pulsing through the economic machinery of the United States today—the rises and the risks.

A respected economist looks beyond tax cut enactment to the challenges of price and fiscal policy, unemployment and labor power.

NATION'S BUSINESS editors analyze what the balance of payments situation really means to you at this time.

An eminently qualified academician tells how best to cope with the unemployment enigma.

A management expert recommends guidelines for company plans and actions to maximize profits.

Finally, NATION'S BUSINESS editors present the combined judgment of leading authorities on the quality of credit and its significance to the economy.



# What's needed after tax cuts

---

Government action in five areas can aid further economic growth

## OUTLOOK FOR THE BOOM

THE NEW TAX LAW is expected to contribute greatly to America's current boom. The extra dollars it puts in the hands of individuals and businesses will step up consumption and investment.

Yet tax reduction is not the answer to all our economic problems. There are problems in at least five areas:

- ▶ Price and wage policies.
- ▶ Government spending.
- ▶ Unemployment.
- ▶ Union monopoly.
- ▶ Balance of payments.

In most instances these problems can be solved

through the common-sense workings of the economy. Yet, in most instances federal action is being urged as the sole solution.

It is useful to examine what government policies or programs might be changed to help solve each.

### Price and wage policies

An important question at present is the rate at which wages could reasonably be raised in relation to productivity. If wages are raised by the same percentage as over-all productivity gains, this means that in some industries wages will go up faster than productivity gains. Therefore, prices may have to be raised in these areas.

Output per man-hour has been going up roughly 2.6 per cent per year in the nonfarm, private segments of the economy, and 6.1 per cent in the farm segments, for an over-all average of 3.2 per cent.

If wages go up an average of 3.2 per cent in the nonfarm segments while productivity goes up 2.6 per cent, pressures for increases in nonfarm prices must be expected.

Since the government supports many farm prices, inflation seems sure under this wage policy.

The only way prices as a whole could be held down would be for wages in areas in which produc-



tivity is rising faster than 3.2 per cent to be held to the 3.2 per cent line. There is little immediate hope of this. Unions in low productivity areas are demanding the full 3.2 per cent, and the unions in the areas in which productivity rises further are demanding the full benefits of improved production.

This has another quite unfortunate effect. If wages as a whole rose with productivity as a whole, this would mean that the employed labor force would raise its standards of living, but pensioners, the retired or disabled would not. The poverty story would get worse.

There are two methods by which retired workers and those living on social security or other insurance or pension sources can hold their own economically with the labor force: through escalation in these payments or through a reduction in the cost of living. We cannot reduce the number of low-income families if wages rise as fast as productivity unless we increase taxes to provide funds to escalate payments to the retired and disabled.

## Government spending

Another question is the relative value of private and public spending. This is no open and shut matter. There are some areas in which the government can operate better, spend more effectively than private individuals—police protection, national defense, traffic control. In areas involved with production, distribution, transportation and consumer choice—discovering what people want and producing it most efficiently at the proper time and the lowest cost—the private dollar is better.

Just where or when a private dollar ceases to be as effective as a government dollar is a question which has not been settled and probably never will be. But this question will be debated with increasing vigor during the coming decade, and we need a better understanding of the principles involved.

Part of this problem concerns the question of where, within the role of governmental responsibility, state governments can be more effective than the federal government and where local governments can be more effective than state governments. This, too, is a gray area. The individual can have more impact on state government and still more impact on local government than he can on the federal government.

A conscientious appointed official in Washington may be far less sensitive to public opinion than a conscientious official in a town or a city. On the other hand, the official in Washington may be less parochial, may have a broader perspective. But this perspective is not necessarily the right perspective.

Enmeshed in this is the fact that municipal fragmentation interferes seriously with effective local government. If local and state governments cannot function adequately, it may only be of academic interest that theoretically they could do many things far better than a central government. Structural inadequacies of state and local governments may force the

central government to take over functions by default which we all wish it would not assume.

One illustration of this problem is the current emphasis of Washington on urban redevelopment and on urban rapid transit. Each decade tends to attack the problems of previous decades. Metropolitan growth is slowing down. But the centrifugal force of the developments of the 1940's and 1950's has left vacuums in the centers of cities, and local governments are coming to Washington for money to help them fill these vacuums and compete with suburbs.

Part of this evolves from the fact that metropolitan areas are fragmented and cannot handle their problems as a whole. They are fragmented in large part because states do not permit metropolitan areas as a whole to resolve their problems. Central cities are better represented in the power structure of Washington than suburbs are. As a result, Washington is moving toward helping metropolitan areas and particularly central cities. This will encourage more local political groups to come to Washington, instead of developing systems by which they can handle local problems themselves and can work out their problems with their own citizens.

## Unemployment

The most obvious problem still with us is unemployment. There are many types and many causes of unemployment. One is federal wage legislation. Increases in minimum wages have priced more and more workers out of the market. The relatively unskilled, unproductive workers, who cannot earn what the law requires that they be paid, must be replaced by machines or by self-help.

A second employment problem comes from the fact that the introduction of more sophisticated equipment reduces the market for some existing skills, while creating markets for new skills.

Unemployment of younger people due to inadequate training or education is a third major problem.

A fourth type of unemployment about which something will be done is that which occurs in depressed areas. It may be better to move more of the labor force to jobs elsewhere than to continue to try to move jobs to some of these areas.

A fifth source of unemployment, or at least underemployment, should be mentioned. While employment on farms has dropped by about three million, or 35 per cent, in the last 15 years, our agricultural policy still supports marginal farms and discourages efficient farms. As the taxpayers tire of this burden, or as Congress decides to allow efficient farms a better chance to compete, the number of farm workers will drop further, and underemployment particularly will drop. This will throw more workers into the non-farm labor force.

Some officials suggest that an over-all increase in purchasing power is basically what is needed to reduce unemployment to acceptable levels. This argument is sometimes combined with a plea for more government spending (continued on page 44)



## OUTLOOK FOR THE BOOM

# Saving gold—

Your business will feel the effects of international trends now shaping up

HAVE YOU thought about how a sudden devaluation of the dollar would affect your business?

Maybe not. Maybe you don't need to, because the government will go to extreme lengths to avoid such a move.

But nothing less than this drastic step is at stake in what is known as the balance-of-payments problem. You and your business are feeling now and will continue to feel the impact of economic measures designed to prevent the present imbalance of America's international income and outgo from forcing devaluation of the dollar.

Devaluation, which last occurred here in 1934, would mean that the dollar would be worth less in terms of gold, other tangible goods and services.

Money you have invested and proceeds from it would buy less than you originally bargained for. You would get a break in repaying outstanding debts. But you might find it difficult to find someone who wanted to risk his funds on another loan to your business.

On a broader scale, U. S. influence in the world almost certainly would wither.

In contrast to 1933, devaluation could well occur in the face of seeming prosperity if the country as a whole should fail to take in enough money from abroad to pay all its bills from other countries. Thus the balance-of-payments problem has ballooned beyond its traditional status as a matter for concern solely of central bankers and global economists.

It's causing headaches for businessmen and economists.

"One of the most disturbing questions that's been thrust at me in a long time," says Martin Gainsbrugh, vice president of the National Indus-

trial Conference Board, "was asked me by a businessman at one of our recent conferences. He asked, 'What has happened to the U. S., which was the world's strongest military and economic power in the mid 1950's? What has happened to make our dollar so soft so soon?' That's a most difficult question to answer."

The balance-of-payments troubles are already causing the U. S. government to take a number of actions which affect you. In order to prevent investment funds from flowing abroad, interest rates for short-term loans have been held higher by the Federal Reserve than they normally

would have under prevailing economic conditions. The Administration wants to levy a tax on purchases of most foreign securities from countries other than Canada. And tourists are allowed to bring in fewer goods duty-free from abroad than formerly. This is an attempt to discourage spending abroad.

Still further measures are being discussed if the situation should worsen. For example, a new upsurge in prices would touch off demands from liberals—and possibly from the Administration itself—for some sort of price controls aimed at preventing loss of markets to foreign competitors. There is continuing

**\$34.5 BILLION—**

**This year America will take in this much money in dealings with foreigners, according to experts.**



# easier said than done

agitation for further restraints on tourist travel abroad.

## **Payments bookkeeping**

How near is the country to these or even more serious consequences?

The best indication lies in the figures on the U. S. balance of payments. It measures the income and outgo of the American economy—not simply the government—in dealings with foreigners.

As a kind of bookkeeping, the nation's balance of payments account lumps together all the money that flows through Americans' hands to foreigners during a given period of time.

These payments came to \$34.2 billion in 1963.

The biggest amount goes for purchases of goods—imports. This totaled \$16.9 billion last year. Some \$5.1 billion in 1963, goes for

services such as a vacation flight to Europe on Air France instead of Pan American World Airways or Trans World Airlines, and shipment of goods on foreign ships. Other money is invested abroad by companies, banks and other private investors. This amounted to \$3.9 billion last year.

The government sends cash for foreign aid. Its troops stationed overseas spend still more dollars when they buy foreign exchange so they can sample the night life along such gay streets as Tokyo's Ginza and Berlin's Kurfurstendamm. Federal payments and loans came to \$7.4 billion in 1963. Other dollars go abroad in the form of social security checks to retired American workers and as gifts from our citizens to relatives in the old country.

As valuable as the dollar is in Chicago, it isn't worth much in

Turin unless it's first converted into Italian lira which the grocer will accept. So most of the dollars sent abroad move into the international banking system and become dollar credits held by central banks similar to our Federal Reserve system, commercial banks or other investors. The foreign banks and others use the dollars to finance the business needs that foreigners have in America.

Most of these exported dollars rotate back home quickly.

Businesses catering to rising demands of foreign consumers buy American-made products: \$21.8 billion of exports last year. Many Canadians, and a small though growing number of other foreigners, buy dollars for traveling here. Tourism, together with commercial transport receipts and other services brought in some \$5.2 billion last year. Well heeled European individuals, oil rich Middle Eastern sheikhs and expansion-minded foreign companies invested under \$500 million here last year.

Some countries are repaying funds lent them during and after World War II by Uncle Sam. And significantly, a big \$4.6 billion last year returned as income from capital previously invested abroad by Americans.

Despite all these receipts—which totaled \$32.3 billion (and adding funds whose movements weren't detected by federal statisticians)—some \$2.6 billion of the dollars that went abroad last year failed to come back as payments.

## **Nations are like businesses**

As any banker knows, net outflow of cash from a business or family during a given period of time isn't necessarily bad. This becomes particularly so if a sizable part of the funds goes for investments in profitable ventures. But no matter how sound the investments or bright the future prospects, a company can get into trouble if its cash reserves run

(continued on page 89)

**\$36.4 BILLION—**

**But the U. S. will spend, lend and give foreigners nearly \$2 billion more than it receives. The balance is a potential claim on our gold.**



# Here's way to make more jobs

Industrial expert tells in this interview why plans to assist the jobless can hurt instead

## OUTLOOK FOR THE BOOM

How BEST to cope with pockets of serious unemployment in prosperous times is one of today's challenging questions.

Efforts are being made locally and privately in the way of job retraining, better work scheduling, trying to increase job opportunities, and the like.

Federal officials argue that this is a national problem. The government has taken some steps and is proposing still others to deal with it. Other ideas are being pushed both in and out of official Washington.

How sound are these plans? Will they work or only worsen the situation?

How would they affect your business? Your industry?

For an expert analysis of what is being proposed and answers to these and other questions, the editors of NATION'S BUSINESS interviewed Dr. Herbert R. Northrup, chairman of the Department of Industry at the University of Pennsylvania's Wharton School of Finance and Commerce.

PHOTO: JOSEPH NETT



*Prof. Herbert Northrup of University of Pennsylvania*

Professor Northrup is well qualified to speak on unemployment to businessmen. He spent many years in industry in various capacities, including experience as a vice president of Penn-Texas Corp. and employee relations consultant for General Electric Co.

He has taught business subjects at Cornell and Columbia as well as at the Wharton School, and during World War II and the Korean war served on regional War Labor and Wage Stabilization Boards.

Professor Northrup has written numerous articles and books in his field, including, "The Economics of Labor Relations" and "Government and Labor."

**Professor Northrup, you have given considerable study to various plans proposed for attacking unemployment. What have you concluded?**

Frankly I'm very pessimistic about their chances of reducing unemployment to any substantial degree. They could even increase it.

This applies to the government proposal to limit overtime work by increasing the penalty pay and





*says government can help by not harassing business*

the unions' demands for a shorter workweek with no loss in take-home pay. Also the programs already in effect for area redevelopment and job retraining.

#### **What's wrong with these programs?**

Various things. The higher overtime penalty is viewed by the unions as a step toward the shorter workweek. But this would inflict a cost on industry that it simply could not bear and be able to meet foreign competition. Furthermore, I think it would actually increase unemployment.

#### **How would that happen?**

Reducing the workweek from 40 to 35 hours and maintaining the same weekly pay amounts to a wage increase of about 15 per cent. This alone would force prices up. In addition, if overtime began at 35 hours, and an employer still needed 40 hours' work from his men and had to pay double time for five hours, the weekly wage cost would go up 28 per cent. This would more than wipe out profit mar-

gins in most industries, and put marginal firms out of business.

It would substantially increase the ability of foreign companies to put products on our shores at below American prices.

Increasing industry's costs to that extent can't help but create unemployment.

#### **Would other costs, such as overhead, also rise?**

Of course. Take fringe costs. Most fringe costs are tied to the number of employees rather than to hours. The employer, as well as the employee, pays social security on the first \$4,800 of pay. Now once a person earns that, the fringe cost is met. Hospitalization is so much per employee. Whether he works overtime or undertime, the cost is the same. Paid holidays, vacations, all these things are tied to the number of employees.

It follows, also, that these fringe benefits will not decrease if you decrease the weekly hours worked per employee, so your fringe benefit costs are bound to go up even with the same hourly wage.

#### **What do you think is the solution to unemployment?**

There is no easy solution. Some of these problems will be with us for some time. I think the more we chase after a panacea that costs the industry, the harder it will be. We need to know who are the unemployed, and what employment is available.

Then we need training, but locally based as much as possible, so people can see the jobs they are being trained for and prospective employers can send in their requisitions for this type of training.

There is a need for the government to stop harassing industry. This is particularly true of the National Labor Relations Board, the Department of Labor, the various regulatory bodies and antitrust agencies.

The tremendous cost involved in just defending yourself in a proceeding before one of these bodies is unappreciated by the American public. It takes millions and millions of productive dollars in paper work alone. The best thing that could happen to create a spur to industry would be to stop this harassment, and to people these agencies with administrators who at least understand industry's problems.

#### **What about increased utilization of facilities?**

The only way you could save anything if you reduce hours is to put on additional shifts and utilize your overhead capacity more than in the past. This sounds like a good thing but you immediately run into bottlenecks of supervision, machine breakdowns and things like that. Moreover, it is a simple fact that not all industries can substitute two 30-hour shifts for 40

*(continued on page 48)*



# How companies build

## OUTLOOK FOR THE BOOM

These proven methods will help you get the most out of prosperous times

YOUR COMPANY'S profit trends beyond this year and next may already be favorably decided by now.

Or you may unwittingly be programming your company's next recession.

We're in a period of general business improvement. The opportunity for expansion of sales and earnings is good. But prosperity also offers a dangerous temptation for otherwise good executives to flop.

Most businessmen assume that smooth going will continue.

The exceptional executive combines memory with foresight to avoid the carelessness that prosperity cultivates and that so often turns good times into bad. Getting the most from the currently favorable situation will be a test of the really superior manager.

Both good times and bad are transient. Solid success depends on knowing how to steer through all kinds of weather. The principles of good management applied in good years will help to create a more satisfying profit during less vigorous years.

Union Carbide Corp.'s Executive Vice President W. M. Haile puts it this way:

"One safeguard for the future is the continuation by industries of the programs they initiated that helped bring about an improved economy. In the face of spiraling costs in labor and materials and growing price pressures, companies should especially view cost-reduction programs as a continuous way of life."

### Five common truths

Five major oversights that come in periods of prosperity directly contribute to the worst aftereffects when business slackens.

They are:

1. Good times don't apply equally

*Alert American firms must prepare for a new surge of competition from imports, warns Walter K. Joelson, manager of planning and forecasting research for General Electric Co.*

PHOTOS: WERNER WOLFF, FRED WARD—BLACK STAR





# on success

*Richard P. Dunn, president of Julius Garfinckel & Co., urges that companies take long-range view in planning*



*Cost reduction programs should be continuous part of life for business, says W. M. Haile, executive vice president of Union Carbide Corp.*

to every company. Even in the most booming industries and the best of times, some firms make less progress than others. This can be a dangerous period. If you lose your share of the market while total volume keeps rising you may be in bad shape when a turnaround comes.

2. Expanded capacity may take years to pay off. It usually takes at least five years to amortize. Be sure the growth you undertake is a burden you can handle if there are temporary recessions during the next few years. Schedule your growth in step with the pace you expect for the next five to 10 years rather than one or two.

3. Careless ways with costs can cut deeply into the profits you look forward to. Avoid a common booby trap of letting expenses climb now, then having to slash painfully as soon as a decline comes along. Keep a steady rein on wages, material prices, expense accounts, maintenance costs, office expenses.

4. These are times when some companies demand less of middle managers and other employees. Performance standards get less attention; looser practices are tolerated. Men who are just coasting and who would be required to produce in tough times are now allowed to hang on, even given pay increases. This lowers morale, makes others think the company sees no distinction between the doers and the watchers. This kind of virus is hard to root out later.

5. Imports usually rise during booms. This is the time foreign sellers gain a lasting foothold here. American companies tend not to notice this as much when the going is easy. But now is the time to keep an eye on foreign competitors—as well as domestic—and try to hold your own with price, quality and promotion.

Other truths as well bear on your future profits.

The practice of comparing the company's performance only with its own past figures—rather than seeing how it rates alongside of competitors—is equally dangerous for a retail store, a service business or a manufacturer. It is natural to feel satisfaction when sales and profits are both up substantially from last year, but this often is not very meaningful.

Last year is not always a good point of comparison. The years ahead are what count.

## **On the right track**

The way to predict when you are on the right track for the future is a two-step process: First, gauge whether you are holding your own in relation to competitors around you; second, note whether your entire industry is on an uptrend over a period of several years.

Unless you are at least holding your place in a progressing industry, there is no time to be complacent.

Taking the long view—a decade instead of a year—seems to characterize many men whose companies

*(continued on page 64)*



# Experts foresee credit risk

## Loose lending standards would raise danger

A MANUFACTURER goes bankrupt with losses of hundreds of thousands of dollars. Two new shopping centers find there isn't enough business for both. Apartments and office buildings fight for tenants. And a borrower defaults on mortgage payments for a house loaded to the rafters with goods bought on time.

These events may be totally unrelated, each the result of purely local conditions. But they may involve a question of concern to many economists, businessmen, lenders and supervisory agencies: a possible deterioration in the quality of credit, or the long-term ability of borrowers to meet their obligations.

Concrete evidence is rare. Many in the field see no grounds for worry. Others who are concerned see signs of improvement.

Business in general has a big stake in the question for two reasons:

- ▶ Severe deterioration in the quality of credit, were it to develop, could curb the healthy expansion of the economy and aggravate any downturn in over-all business activity.

- ▶ Credit trends, as well as actions by borrowers, lenders and government to counter them, could strongly affect business in specific areas, industries, even individual companies.

William McChesney Martin, Jr., chairman of the Federal Reserve Board, expresses concern over speculative financing of multifamily apartment projects, shopping cen-

ters, motels and other ventures based on uncertain customer demand.

He adds: "I have in mind as well a general tendency throughout various parts of the credit structure to relax the standards on which credit is granted for a variety of purposes other than speculation.

"We have seen signs of reductions in down payment requirements by lenders, lengthening maturities, escalation of appraisals of the value of collateral supporting credits, and

a tendency to permit larger borrowings relative to the expected income or cash flow of the borrower."

Others, including Dr. Geoffrey H. Moore, associate director of research with the National Bureau of Economic Research, point to signs of deterioration in the home mortgage, consumer credit and trade credit fields. Some see problems with business credit.

James J. O'Leary, vice president and director of economic research with the Life Insurance Associa-

*Joseph P. McMurray, chairman of the Federal Home Loan Bank Board, urges mortgage lenders to protect the integrity of the real estate market*

PHOTOS: GEORGE TAMES





tion of America, adds that there are similar problems in varying degrees throughout the financing field.

Roy L. Reiersen, senior vice president and chief economist of the Bankers Trust Co. of New York, says one by-product—and indicator—of credit trends has been the narrowing of the gap between yields based on greater or lesser risk on the corporate bond market.

He and others also feel that the credit situation is reflected in the nation's balance-of-payments problems. Of course, much has been made of higher returns on overseas investments. But one banking economist emphasizes that some who invest abroad are seeking a safer investment than they could find at home at a comparable rate of return.

Since the problems now emerging have been long in the making, and therefore won't disappear overnight, it is useful to ask what are the background causes, current practices, evidence of deterioration, dangers to the economy and possible solutions.

#### **Losses during inflation**

The postwar economic expansion accompanied by inflation brought few losses to lenders and generated investor confidence.

Funds flowing into savings institutions greatly increased and were boosted by a 1962 change in regulations allowing commercial banks to pay higher interest on deposits.

With a swollen supply of funds to invest, lenders have been under pressure to reach for outlets in a competitive scramble to place loans, especially in the higher-yield mortgage field.

Summarizing the situation, Marcus Nadler, professor of finance at New York University Graduate School of Business, says:

"There is no question that a number of unsound mortgages have been made, particularly Federal Housing Administration and Veterans Administration loans. And there is no question that savings and loan associations have made some unsound loans.

"And there is no question that other unsound loans have been made in connection with other real

*(continued on page 96)*

*Chairman William McChesney Martin, Jr., of the Federal Reserve spots warning signs*





# A LOOK AHEAD

## Coming: State tax action

(Taxation)

## FHA pushes new programs

(Construction)

## Retailers watch NLRB

(Marketing)

### AGRICULTURE

Congress will take action this year on at least two major farm measures entangled with diplomacy.

Extension of the law that lets the government sell surplus farm goods for foreign currencies is likely. Foes of present federal farm program want restraints which will prevent foreign needs from being added to U. S. production goals. Some favor putting food deals directly under foreign aid.

Another squabble is likely over division of about 1.6 million tons a year of U. S. sugar needs among various producing groups. Cuba used to fill this quota. Other countries want permanent allocation of parts of the tonnage.

### CONSTRUCTION

Federal housing planners will give more attention to experimental, fringe-type programs, less to straight single-family home loan insurance.

That's clear in President Johnson's housing program. It's natural, say Federal Housing Administration's backers; the agency was founded to help people own homes who couldn't otherwise. And now growing numbers can afford houses.

U. S. turns to variety of schemes. "Some will work, others won't," says a building industry economist. Loan insurance for low-cost vacation homes may raise questions of

construction standards. Broader program for condominiums—where dwelling units are owned individually but rest of project jointly—masks fact that present program has had little use.

Experts question need for FHA loan backing on projects costing up to \$50 million for developing whole communities. Most developers able to undertake such projects already have adequate capital, industry sources say.

Some programs already on books lack use. At least four housing law sections aid home improvement loans—all at different terms.

Latest figures show about 85 per cent of new nonfarm home starts are being financed outside federal programs. Federal programs mean too much red tape for hurry-up buyers nowadays. But government guarantees would get more use if the economy dips.

### CREDIT & FINANCE

Officials plumb Canadian intentions for preview of how much money foreigners will raise in U. S. security markets this year. The total will sway balance-of-payments deficit importantly. Canadian plans are all-important because businesses, government units there are main foreign sellers here.

Estimates differ widely. One group of Canadians sees a total U. S. outflow to all countries of \$1 billion. Another group sees only

\$400 million. This doesn't include direct investments by American companies, just portfolio investments. The top figure would be a major blow to payments balance, the \$400 million is considered about normal.

Foreigners are holding off floating new issues until they see what Congress does with interest equalization tax proposal.

### FOREIGN TRADE

Critical decisions which will affect prospects for global tariff slashes are due in the next two months here and in Europe.

In Washington, the Tariff Commission closes several months of hearings March 27 on how duty cuts would affect various industries. The commission will have heard from nearly 1,500 witnesses by hearings' end.

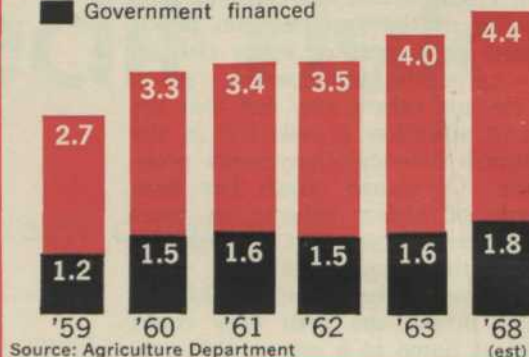
Another government panel is hearing industry ideas on what cuts the U. S. should seek from others. What the two bodies decide will guide U. S. negotiators at coming international trade talks. President Johnson will get their reports in secret.

In Brussels, the European Common Market plans to announce its basic cereal prices for the 1964-65 marketing year by April 15. The price level will show how much trade protection CM members will give to their farmers, indicate American prospects for grain sales

## Uncle Sam finances farm exports

Billions of dollars

Commercial  
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Source: Agriculture Department

(est)



there, hint at toughness of Common Market position at trade talks.

## LABOR

You can look ahead at the intensity of 1964's wage bargaining by looking back at what happened in 1963.

One key: wage raises taking effect this year though negotiated earlier. They'll average about seven cents an hour over-all, six and a fraction cents in manufacturing. That's already decided. Examples: Wages of 7,000 workers in the glass container industry go up three per cent the first of this month, 74,000 rubber workers get a 6½ cents raise May 1. Unions eye these raises as a floor.

Corporate profit reports on last year's business embolden labor's bargainers. They're already cited by Walter Reuther, whose United Auto Workers' contracts with the Big Three auto companies run out in August.

Few labor experts expect the Administration to crack down hard on union demands in this election year. Business argument that profits as a share of sales still lag doesn't sway unions.

Economists in and out of government privately talk up need for wage increases to trail productivity growth rate—instead of vice versa. Productivity gains should go partly into price cuts so U. S. can outsell Europe, these men reason.

## MARKETING

Storekeepers' fight against widespread unionization enters a touchy stage. The spotlight is on the National Labor Relations Board.

Merchants fear the NLRB will okay splinter bargaining among employees. In the past, the board has always ruled everyone in a store belongs to one bargaining unit. This grouping usually results in defeat for unions in representational elections. Now, the Retail, Wholesale & Department Store Union is asking NLRB to permit splintering, ease unions' job of organizing workers.

A store could be split into many

groups: selling employees, nonselling, warehousemen, others. NLRB has already allowed a split off of one store from a chain's regional grouping.

Reverse twist: The competing Retail Clerks International Association opposes splintering. It fears this would enable other unions to cut in on its traditional territory.

## NATURAL RESOURCES

Different means of generating power to fill America's surging electricity needs will bring added investments by power companies. Experts don't consider some of the methods really new, but their widespread use is just catching on.

Pump storage is one. Highly efficient thermal generating units make it economical to pump water to hilltop reservoirs at night, run the water back downhill during peak-use hours. Connecticut Light & Power Co. built the first one back in 1928. But nothing much else happened until recently. Now, Consolidated Edison Co. has a two million kilowatt project on the books for operation near the Hudson River in 1967.

Gas turbine and diesel generators will get expanded use. Atomic reactors will gradually become economical. Southeastern power companies offer to pay for a \$300,000 federal study to see if a weapon-making reactor in South Carolina can switch to power production. The President's economy drive would close it.

A Federal Power Commission panel estimates U. S. energy requirements will expand nearly three times to 2.7 trillion kilowatt-hours by 1980.

## TAXATION

Don't get your hopes too high, but some relief may be in sight from the overlapping tax requirements of states on companies in interstate commerce.

Come March 31, a special House judiciary subcommittee is slated to report on state taxation of interstate commerce.

The report's contents?

A picture of how state income taxes create filing problems for businesses selling across state lines (U. S. Supreme Court says an out-of-state firm is taxable on profits earned from sales in a state even if it has no office there), a look at overlapping tax liabilities (conflicting state laws sometimes mean a firm is taxed on base of over 100 per cent of profits), an unprecedented statistical picture of companies trading interstate.

The group will report later on multistate confusion in use taxes. Batteries of lawyers, accountants have trouble keeping up with changes.

What can Congress do? It's unclear under Constitution. This year's tight congressional schedule makes 1964 action all but impossible. Proponents of change aim for gains in next Congress.

## TRANSPORTATION

Standardization—that's the key word of the future for carriers seeking to make fullest use of transportation's technical strides.

It's like the standard gauge for railroad tracks in eliminating wasteful confusion. The trend cuts across industry lines. Committees seek agreements on uniform shapes, sizes for big containers. Enthusiasts predict pacts on containers that can be swapped among ships, trains, trucks, planes.

In the air, the International Air Transport Association puts into effect in April the first world-wide rules on equipment for swifter handling of air freight.

Truckers press states to standardize rules affecting haulers. American Association of State Highway Officials already sets up uniform road construction regulations. This enables development and use of bigger, faster, more efficient equipment. Railroads experiment with new freight cars.

Europe's pictorial road signs which mean the same in any language win increasing try-outs here. New York, Michigan experiment with them. Slippery-when-wet warning shows rear view of a ca-reening car.



## AFTER TAX CUTS

*continued from page 33*

or with statistical evidence that at specific times unemployment of unskilled labor has dropped at the same time that unemployment of skilled labor declined, or it has dropped when spending has increased.

This is dangerous reasoning by analogy. While there have been times when unemployment rates among the unskilled have declined, or changed along with the unemployment rates of skilled workers, the decline has not done more than touch the fringe of the problem.

It would take a serious inflation to make employment of all but, say, four per cent of the unskilled and uneducated workers competitive with the use of modern equipment. As the hours of use of equipment rise, it tends to become cheaper to install more new equipment than to add to the proportion of unskilled labor. And inflation would reduce the very purchasing power the advocates of increased government intervention believe to be needed. This analysis does not give adequate emphasis to the fact that the major increase in the labor force is now in the young unskilled and older groups with obsolete skills.

The causes of unemployment—including among other things an

inability to compete in the labor markets because of inadequate education, training or acceptance—must be tackled.

Groups which cannot secure access to satisfactory employment through no fault of theirs, such as the elderly or the chronically ill, must be cared for. The rest should be given opportunities for training, retraining or relocation for the types of employment which an expanding economy needs. Operations to increase over-all purchasing power cannot do this job.

### Union monopoly

Related problems revolve around questions of union size, power, policies and structure.

If a union is allowed to have monopoly power, it can shut down not just one plant or one company but an entire industry. If the industry is important, and particularly if it performs a service which cannot be stockpiled for long, such as transportation or communication, the union is in a position to exert pressure on the economy irrespective of the justice of its position. The matter becomes not one of right but of might.

When the matter concerns a small company which produces items which other companies also are producing, with which society can dispense, or for which it can find

satisfactory substitutes, the battle becomes one between the company and the union with no great damage done to society or the economy. The law could protect the right of the unions to strike under such conditions without danger to society.

But the story may often be quite different. It can no longer be taken for granted that union leaders have an inalienable right to injure society in achieving their goals.

Industry is learning to accept its social responsibilities. Unions must likewise learn to accept social responsibilities, to accept obligations as well as rights, if the economy is to progress. Unions should recognize that collective bargaining is not an end in itself, but a tool for forging industrial peace. It is not a tool which can be thrown aside for a strike that will inconvenience society in order to force industry to accept the union's position, not because of right but because of might. More self-discipline on the part of the unions is necessary. Without it, limitations on collective bargaining and strikes must come.

The problem is important, but it can be solved. For instance, years ago it was decided that the question of union recognition should not be settled by strikes. Votes are used to settle that issue today. We are moving away from the use of the strike to settle grievances. Responsible unions know that early recognition of the development of a grievance, existence of machinery to bring the grievance to light and to discuss it, and the existence of machinery to settle it rationally are better than the strike for the union as well as for management. Similarly, unions should be able to learn that the strike should no longer be used as a weapon for settling issues such as wages.

An interesting sidelight on the effects of monopoly unions on the economy is the fact that such a union can insist on the same schedule of wages and work rules for small companies as for large companies, even though the cost of living may be lower in small towns. And the cost of doing business for a small firm may be higher, because of higher transportation costs or for other reasons. Nevertheless the monopoly union may insist that the small employer in a small town pay the same wages and follow the same work rules prevailing in the large firms in cities with higher living costs. This insistence on the same standards tends to push smaller firms to the wall. Large unions may

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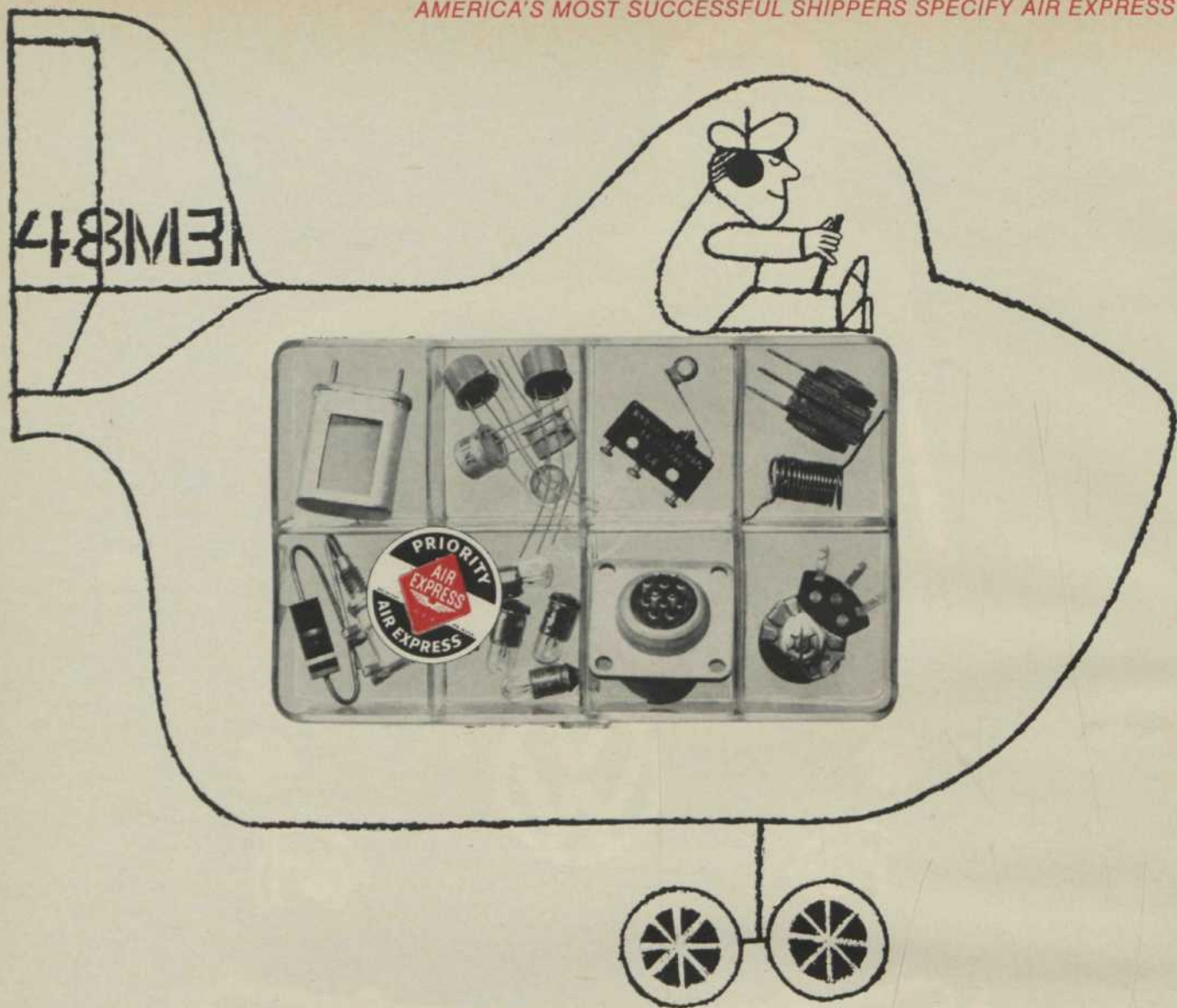
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## AFTER TAX CUTS

*continued*

tend to reduce the number of small companies.

### Balance of payments

Another major problem still on our doorstep is the balance of payments. (See article on page 34.) We are spending and giving away more abroad than is coming back to the U.S. Although the balance resulting from commercial transactions in goods and services has been favorable to the U.S.

This problem can, of course, be solved over the long run because foreign aid and military expenditures abroad can be cut and because earnings from investments abroad are increasing. But the problem is acute in the short run.

Three obvious steps are available for influencing private money flows: a long-term improvement of the technical machinery by which funds and investments cross international borders, and improvement of machinery for creating and handling international liquidity; temporary restraints to investment abroad; and temporary moves to encourage a net inflow rather than outflow of short-term investment funds.

The interest rate on short-term Treasury bills, for instance, is higher than it was in the summer of 1961. But it is very difficult to raise short-term rates appreciably over any extended period without affecting long-term rates too.

Higher interest rates are not always injurious to the economy as a whole. If capital can earn 10 per cent or more, it is profitable to borrow even if it costs seven per cent, in order to earn the 10 per cent. If, however, capital will not earn three per cent, it is not worth paying three per cent for the money.

The impact of higher short-term rates on the cost of installment purchases which are repaid in three years or less is relatively light. Most of the cost of financing consumer purchases is in the cost of services rather than in the capital itself.

In housing, however, and to some extent in the field of state and local financing, the interest rate is important. Therefore, efforts to encourage an inflow of short-term funds which influence a relatively few hundred millions of dollars a year directly, but which raise the cost of scores of billions of long-term funds, including some \$35 billion a year in home mortgage financing, have an important impact

on the economy. An increase of one half per cent in interest rates on new mortgages written in one year would increase the interest payment by homeowners in one year by \$175 million. In two years, the increase would be \$350 million a year. And in six years, \$1 billion. This would hit the young, low-income families.

Of course, this is not a net outflow of interest payments by consumers or even by homeowners, because much of the interest paid on home mortgages is returned to families. Savings and loan associations, for instance, repay in dividends most of the income they receive as interest. Insurance companies repay most of their interest receipts in the form of dividends or lower insurance charges. But the impact on the particular families buying homes can be substantial.

A somewhat related problem is the independence of the Federal Reserve Board. It is obvious we do not want political control of interest rates or of bank credit or other matters which have a major impact on the economy. On the other hand, we do not want a free-wheeling, unresponsive organization, which has a major influence on credit and on the economy. Society must have some check on the Federal Reserve. Whether the check we have is adequate at any particular time may always be an important question. Questions as to how much interest rates should be controlled and who should control them will be very important in the coming decade.

There are many other problems being debated—such as profit levels, income distribution, tariffs, monopoly power of companies. Such problems are moving toward solution—as by recognition that profits are necessary to investment and jobs.

Some alleged problems are at least partly figments of the imagination, for example, the argument that national monopolies are a major problem in a time when industry competes with industry more than company with company. Many are not problems that can be treated directly, but only by allowing the system to function well.

But those discussed here are basic to a sound economy, and to a solution of most of the problems that get front-page attention.

It is often easy to attack the obvious but superficial problems and to ignore the basic ones. But it is a dangerous practice because the basic problem may become more serious the longer it is ignored.

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## MAKE MORE JOBS

*continued from page 37*

hours; maybe the demand is not there.

So these things that may seem to work so well on paper raise enormous practical problems.

**Would there be a problem finding the necessary skills that would be needed?**

Yes. You can go anywhere in the United States where there is substantial unemployment and you will find ads in the newspapers for skilled people. There is no unemployment among skilled people. These skilled workers and the professional people, as well as supervision, will be bottlenecks.

So even if the demand were there to sustain a substantially larger production, based upon two shifts instead of one, you would still have the managing problem. In time this could be met, but in the meantime foreign competition will come in and take part of the business. The advocates of a shorter week are making some assumptions that never in history have worked.

**Has the reduction in work hours in the past been made up through increased productivity?**

Partially. But the point is, we are now at a 40-hour week, not a 50- or 60-hour week. Some people seem to believe that productivity will increase as a result of hours reduction. Well, I don't think there is any basis for believing that.

A 40-hour week is pretty much the optimum. Working less will not make people any more energetic or any more efficient.

Most industries are operating on a fairly narrow profit margin. Profits have been good because production has been quite high. It wouldn't take much in many industries to change the thin margin into a loss. They don't dare increase their prices or they will lose their markets.

**What about the increased penalty for overtime?**

This idea was generated by Walter Reuther. Bills have been introduced in Congress to increase the penalty pay for work beyond 40 hours a week from time and a half to double time.

It's quite natural, incidentally, that Mr. Reuther should advocate this idea. Two years ago he forced a virtually guaranteed workweek on the automobile industry. This and the high cost of adding new em-

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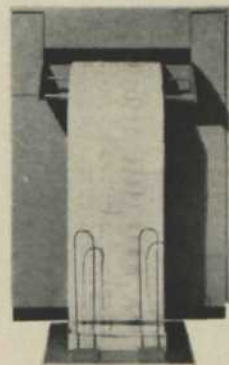
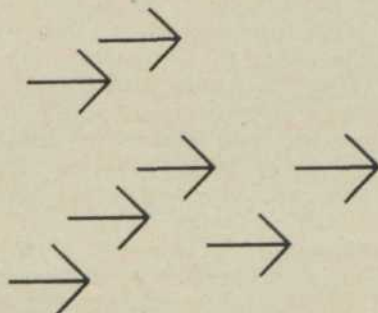
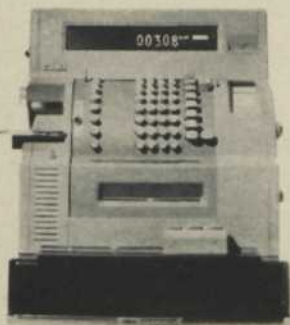
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## MAKE MORE JOBS

*continued*

employees because of fringe benefit obligations and other reasons made the use of overtime as against hiring new employees even more desirable from a cost standpoint in the automobile industry than in most others.

Even before, the high cost of fringe benefits made it substantially cheaper in the automobile industry to use overtime rather than hire new employees. In the auto industry overtime can be used for about six months before it pays you to hire new employees instead.

Any employer looks at the situation and has to decide whether to hire more workers or add overtime. This is no different from any other cost calculation.

The union drive for double pay for overtime will increase the cost of overtime as combined with hiring new employees. The result will be that whichever an employer decides to do, his costs will go up.

### Why is that?

Because now we seem in some industries to have a cost balance in favor of more overtime instead of more employees. But if you change that balance by increasing the cost of overtime, you are going to increase the costs to the employer, because even though it becomes cheaper to hire new employees than add overtime, it will be more expensive than the overtime was before the change was made.

### What effect would the reduction in overtime have on unemployment?

Very minor, indeed. Last August the Labor Department made a study of overtime hours and premium pay. It was the first such study ever made. It found that 7.4 million wage and salary workers with only one job worked 49 hours or more. Now about 600,000 of these held farm jobs and they weren't even getting overtime pay.

Of the remaining 6.8 million workers in nonagricultural industry, only 22 per cent were getting any premium overtime pay. The rest were salaried professional people and managers who are not covered by the federal wage-hour law, so any increase by law in penalty overtime pay would not affect them.

Of these 1.5 million people who were working overtime, the great majority—in fact, the typical ones according to the Department of Labor's own study—were people

who did it sporadically. It was not a consistent pattern, or even typical.

So you are, in effect, firing a shotgun at a blank wall. Moreover, you are increasing industry's costs. The inevitable result, assuming other costs will continue to go up and assuming that no matter what happens to premium rates the unions will still ask for wage increases, is that industry's costs are being pushed up, and they are being encouraged to substitute machines for men. It is highly unlikely that union members would be satisfied with maintaining the same pay, although working less.

### Doesn't Mr. Reuther have a plan for a flexible workweek?

Yes, and I think the government is considering that too. The idea is that the workweek would be expanded and contracted depending on the amount of unemployment in the industry.

This is a real bureaucracy-creating proposal that I think is, first of all, administratively unworkable. It reminds me of the NRA days and all the trouble we had defining an industry.

### Does it create a problem when you have different industries working under different rules for overtime?

Of course, because industries are competitive with each other, such as the steel industry, aluminum, prestressed concrete, plastic. Any of the metals industries has this problem of substitutability. The great plastic industry is a threat to any industry that exists today.

### So we have different cost factors injected by others?

That is right. The net effect would be to favor one industry over another.

Another thing, you'd go down in hours and, say, work 37 hours and get 40 hours' pay. You know that at the next contract negotiations, the workers are going to demand time and a half pay over 37 hours. This is, of course, what the unions are aiming for. It's getting the camel's nose under the tent.

As for the tripartite commissions the Administration has proposed to decide what industries can pay extra overtime penalty, I don't think industry should be put in position where its costs should be determined by a combination of labor groups, college professors and lawyers. They have no responsibility for success of the business.

In effect, the member who is sup-





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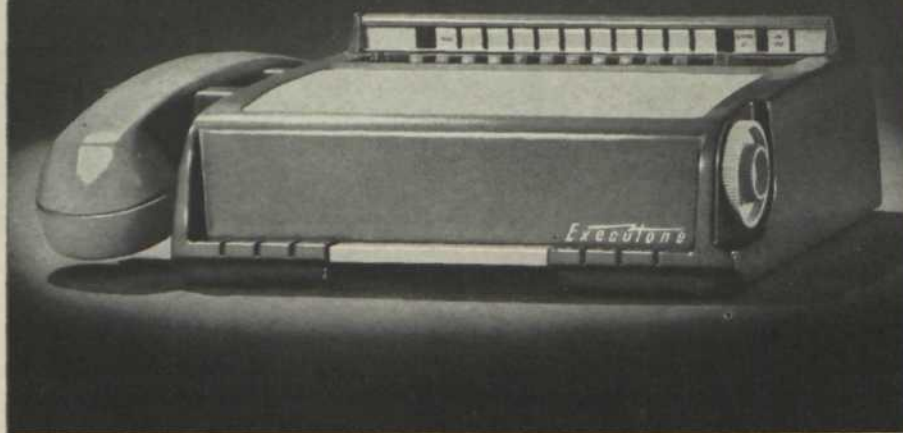
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**Executone**

## MAKE MORE JOBS

*continued*

posed to represent the public has the balance of power and he is an irresponsible person as far as the return to the industry is concerned.

The most interesting thing from an economic point of view is that this proposal is beautifully calculated to worsen business because when there is unemployment it means industry is not selling products, by and large.

It means by and large the industry is suffering a recession. So what you do is jack up its costs at the time it can afford it least. Thus you are deepening the depression.

**Is it the nature of our unemployment that makes this approach to the problem impractical?**

Yes, that is one of the main reasons why the shorter workweek would do very little to help the unemployment problem, even if the basic economic considerations were not determining. We ought to take a good, hard look at what unemployment is.

Today unemployment is largely structural, a product of cost and social factors which have been growing in importance since World War II. These factors have become more severe in each recession since 1944.

Today about five to six per cent of our labor force is unemployed but this unemployment is highly constricted.

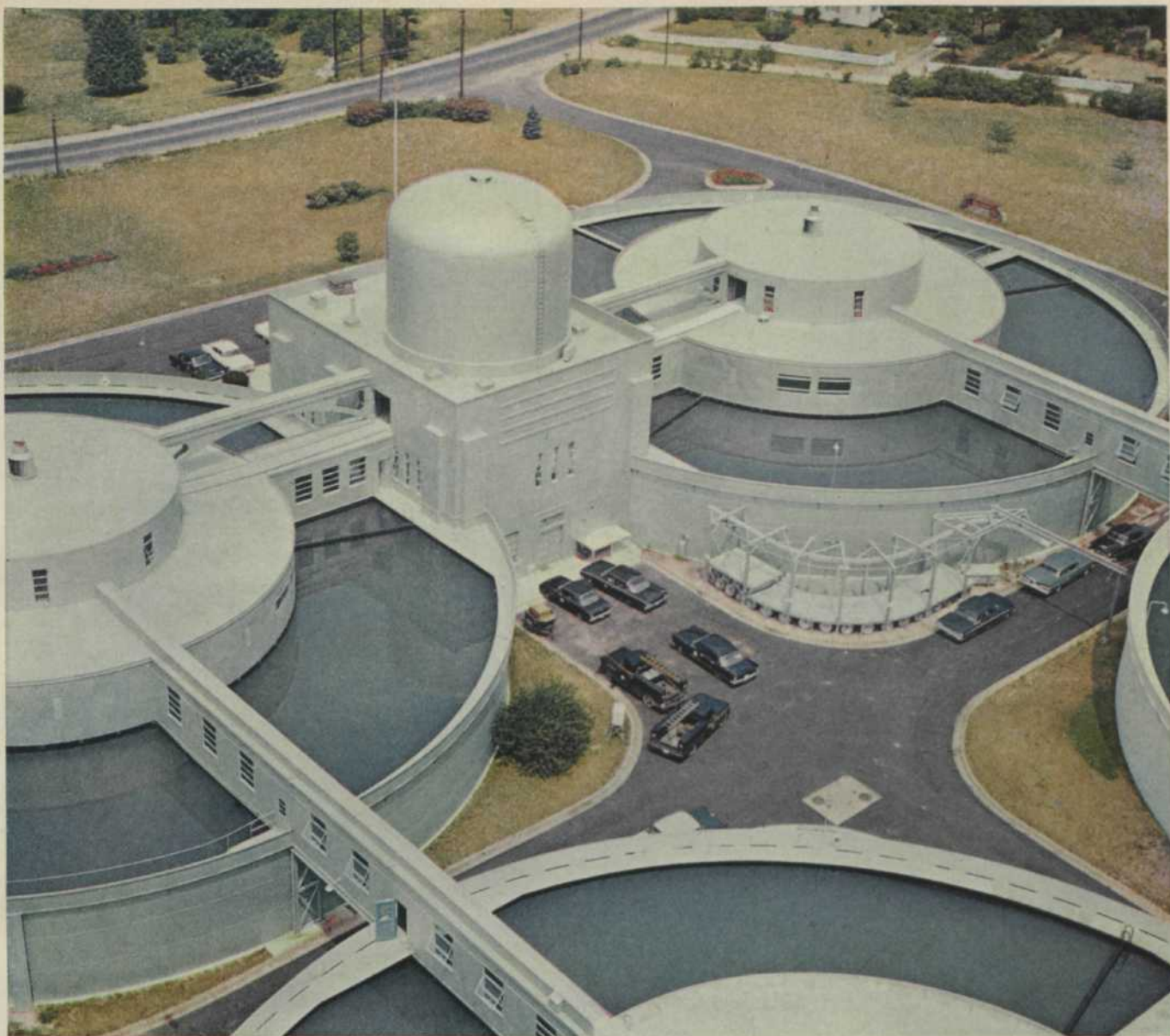
Many people are unemployed because of the area they live in, the industry they work in, their lack of education and skills, their race, and many other reasons.

**Shortening the workweek and discouraging overtime work would not reach many of these unemployed people?**

It certainly wouldn't. It is almost a mockery to advocate such a thing when our real job is much more difficult and at the same time fundamental.

You are talking here about people without skill when industry is demanding more and more skill. You are talking about people in isolated and special areas when industry is standing in other areas. You are talking about expanding the labor force at a time when there is going to be no increase in the number of unskilled jobs. Now just how attempting to divide up the work can solve this problem, even outside of the basic economic one that you can't increase em-





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## MAKE MORE JOBS

continued

ployment by raising costs, is simply beyond my comprehension.

**What about the depressed areas program?**

Well, this is one of our most unfortunate programs.

This program proposes to take companies, give them a comparative advantage of low interest rates and locate them in depressed areas which have been unable to attract industries. I suspect the missing ingredient of management will ruin any plan they have.

Furthermore, I wonder what right the government has to take our tax money and give one man a cost advantage over another.

Finally, I would suggest the problem in these areas is to get the people out rather than to get the industries in.

I think they are creating a false hope. They will not succeed in building a sound basis. These communities should take a sound look at themselves and why they can't attract industries. Maybe they will come up with some reasons and maybe change some things in their areas.

Today industry is looking for a good business climate. That includes not only appreciation of what industry does, it includes good schools—you couldn't lure people in without good schools—and a police force that protects people under all conditions fairly; it includes an honest, well run local government.

**What about the job retraining program?**

Retraining offers many potentials but the difficulty with retraining is that before you can retrain people for jobs you have to train them to be ready to be retrained. In many cases you have to create a new environment. You have to break them away from homes where there are no books on the shelves, and no encouragement. You have to have jobs to train them for.

There have been some fine things done in retraining, mostly by companies without the help of the government. They are training for jobs that actually exist.

In the meat packing industry they have trained some people, but found most were not trainable. You have to train for something that is specific and sometimes it requires years of training.

END

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# HOW MEN GET AHEAD

Three-year study of promotions discloses new insights into the successful executive

**AMBITION** is the key personality element in executive success—or failure.

This is the overwhelming conclusion of an extensive study of what it takes to get ahead in a company.

Other factors are important in the promotion of executives, some of them much more influential than has been suspected. But the personality trait best described by ambitiousness, aggressiveness and drive is the top consideration in job advancement, according to executives from a number of America's large corporations.

For the past three years, a research project at the University of California at Los Angeles has concentrated on an intimate examination of why executives get promoted. The study has involved interviews, a network of confidential corporate informants, a 27-page questionnaire and firsthand observation in lead-

ing business corporations. Managerial capability, as reflected by performance, experience and knowledge, is highly important in getting ahead. However, at the heights of the administrative pyramid, where opportunities for advancement are sharply reduced, managerial capability loses some of its importance as a distinguishing element in promotion. At this level, a high degree of competence is so common that the emphasis shifts to other elements—personal characteristics, circumstances, associations and the background of a man.

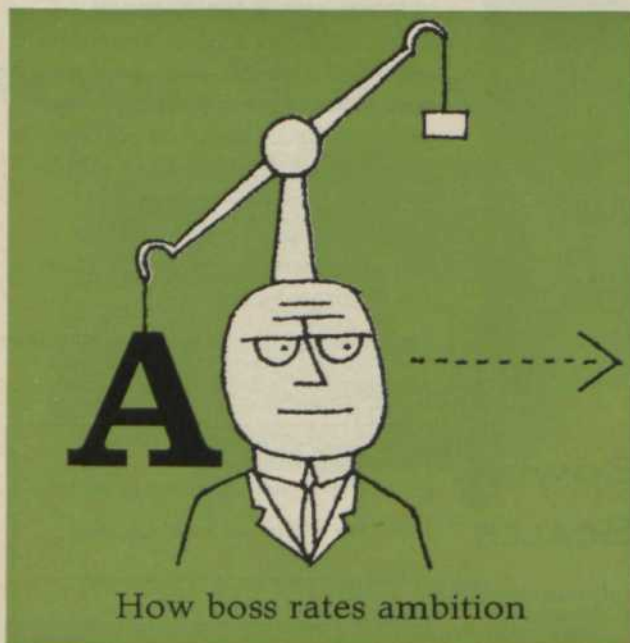
The study showed it is much to an executive's advantage if: He is white, Anglo-Saxon, healthy and energetic, Protestant or Catholic, a college graduate, a member of a reputable social club, effective in informal relations with superiors, helped socially by his wife, a Republican, member of the Chamber of Commerce or American Legion, is tall, clean-cut, properly dressed, with good bearing, a social drinker and a participant in nonpartisan civic, charitable and professional organizations.

Not only do these factors play a part in promotion, at the top levels it is the chief executive officer of an organization who really makes the choice. Subordinates and equals of a candidate have little to say about it.

The analysis of 40 of the country's leading business firms concludes unmistakably, however, that the most significant distinguishing factor of all the elements in executive success is personality. The over-

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*Reed M. Powell, author of this article, is director of the Executive Vertical Mobility Research Program at the Graduate School of Business Administration, University of California at Los Angeles. His article tells what he and his associates found in a three-year study of why men are promoted. They talked to 263 top-level executives in 40 companies in what was probably the most extensive study to date in this area. Dr. Powell is author of a forthcoming book, "The Executive Promotion Process."*





lapping traits looked for are ambition, aggressiveness and drive.

Though there is some redundancy in these words, each term carries implications not fully covered by the other two in determining what executives seek in selecting individuals for promotion. For the sake of simplicity, the word ambition can be used to include the others.

When the upper-level executives who participated in the questionnaire phase of the research were given a check list of personality characteristics, the item designated as ambition, aggressiveness, and drive was the only one which every executive agreed was a factor in promotion. The overwhelming majority indicated that this item was either quite important or of great importance for promotion at executive levels.

The same executives were asked to describe what they thought important in the selection of others for executive positions in their firms. No check lists or suggestions were given to indicate what these items might be. The results were unusually significant because the executives were required to reflect carefully upon these factors and describe them without any form of suggestion.

When the responses were evaluated, ambition, aggressiveness and drive again were found to be the qualities most related to promotion.

#### **Executives who don't advance**

The problem becomes more complicated when you look at the unsuccessful executive. Surprisingly, the chief characteristics in an individual's personality related to his failure to gain promotion are also aggressiveness, ambition and drive.

The secret appears to be in the amount and appropriateness of ambition that a man displays to other people. Managers react against these elements when they are excessive or when they are inadequate.

One element which influences the amount of ambition and drive displayed is the sensitivity of the



**Ambition is the key**

executive toward the people with whom he associates. Ambition is a delicate matter. It requires finesse on the part of the climber. The more he is able to anticipate the reactions of other people, the more correctly will he be able to adapt his aggressiveness to a particular situation.

Ambition, aggressiveness and drive cease to be simple items when you analyze the complex meanings which administrators assign to them.

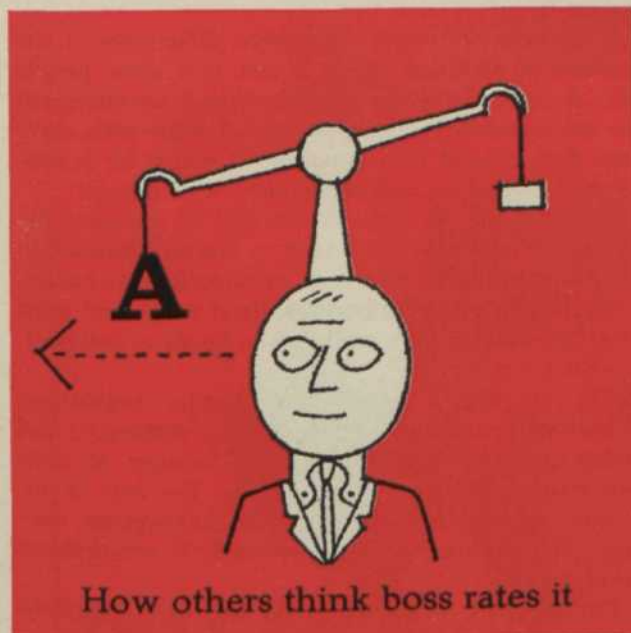
Implicit in all of these meanings is a feeling that the qualities are good and lead to success in climbing the executive ladder. For example, the man who makes himself available continuously to his company, regardless of the amount of time required and the personal sacrifices he must make, is laudably ambitious.

The tie between this and personal success is illustrated by the businessman who commented: "The people who get promoted in our company are those who do not quit work at five o'clock but stay on until seven or later, and who work on weekends. The growth-oriented members of our management try to meet the insatiable demands of the firm by not being distracted by family life and other outside activities."

Not only is the amount of time spent on the job important, but also the reputation which an individual develops for hard work. This was aptly described by the executive vice president of a large financial institution:

"In my growth I reached out for assignments beyond what was expected and paid for. I placed no limit on time, energy or interest devoted to the company. I was extremely helpful to the chief executive officer in all his tasks, reporting to work an hour early in the morning. I was also able to get my department members to help in working out extra tasks. I set out to outproduce everyone around me by working longer and harder because I did not see any other way to gain success."

The ambitious executive's basic dissatisfaction with his skills, methods and job achievements is reflected



**How others think boss rates it**



## HOW MEN GET AHEAD

*continued*

in his seeking to maintain a steady forward thrust toward improvement. He attempts to add further responsibilities to those already held, to move into a position of leadership and to pursue a program of personal progress.

As he develops, he translates his big ambitions into big-picture thinking for the firm.

As the president of a transportation company phrases it, "In our industry to be big, one must think big." The ambitious man is not only interested in his own areas of responsibility but also in the total welfare of the firm and its long-run opportunities.

In his work, he cultivates friendships with powerful people, both inside and outside the office, whose support he needs. He studies and uses the informal organization. He recognizes, for example, the importance of the administrative secretary in helping him to achieve his objectives. He understands the political game. He sees that he gets credit for his successes and brings himself to the attention of his superiors, particularly the chief executive.

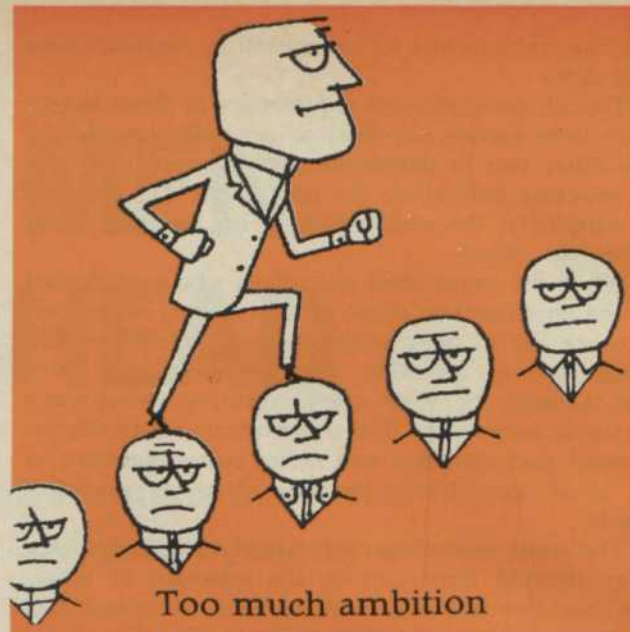
The three-year study showed that some executives feel the standards of morality in western society may not always be applicable to the business world.

They feel that the executive must be able to compromise in the competitive struggle for advancement.

### **Persistence is valuable**

The ambitious executive has to be able to concentrate all his efforts on whatever he is doing and to stick with tasks long after others have abandoned them. He needs the ability to make adjustments, to be flexible in his thinking, feeling and actions. He shows this in his willingness to accept tough assignments, to move from one area of the country to another, or to foreign lands.

The ambitious, successful executive is able to build



friendships with people and yet leave certain ones behind and establish new friendships as he progresses along the corporate path.

In his outlook, he identifies with his superiors. He studies, thinks about, and even tries to emulate them. He seizes and practices the relevant techniques for lifting himself and dresses these with the appropriate status symbols to sustain his rise.

He will be tactful in any disagreement with colleagues and be careful not to arrive at an impasse. He recognizes both the importance of cooperating with others and preserving freedom from interference by them in his own work. With all this, he also studies the kinds of promotions offered him to avoid potential dead-end streets.

### **How much ambition and when**

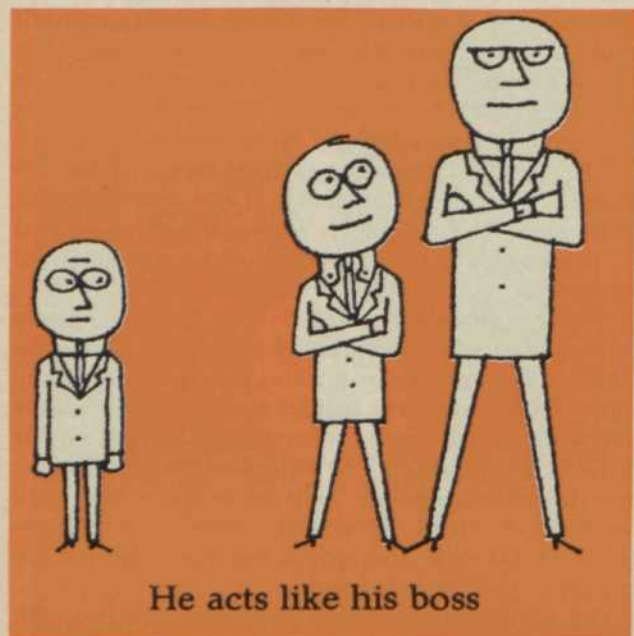
An important current question is: Just how much ambition does an industrial organization want, and in how many people and what kinds of people does it want it?

A number of people experience difficulties in the exercise of ambition. It is a fact that some people who do not strive for organizational advancement are not necessarily unambitious. A man with drive may find himself in a situation in which he is condemned if he does and condemned if he doesn't.

For example, in spite of his zeal to produce, the ambitious man may be forced to restrain himself in order not to be resented as a managerial rate-buster. According to many authorities, fixed notions of what constitutes a fair day's work can be found in practically all occupations.

The individual's achievements require cooperation of both superiors and equals. Yet his colleagues and higher-ups may fail to cooperate because of their own rival ambitions. Consequently, the fear of antagonizing various factions in his environment may force the ambitious executive seriously to compromise his objectives.

Furthermore, in getting credit for his accomplish-



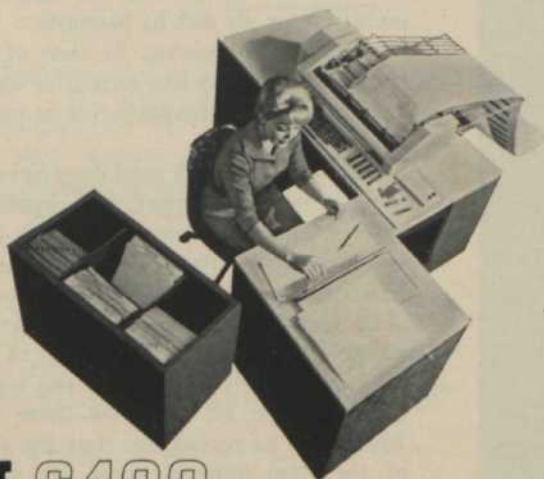


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7/02/6-	12368	187.72				187.72				
7/21/6-	12566	13.91				201.63				
7/30/6-	12671	304.11				505.74				
8/01/6-						505.74		505.74		
8/07/6-				187.72		318.02				
8/20/6-	12802	156.12				474.14				
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## HOW MEN GET AHEAD

*continued*

ments, he has to be careful that he is not regarded as unduly grasping and self-centered. Self-marketing must be done with discretion. If the aspiring executive pushes too hard for promotion, he may be regarded as overanxious and thus raise questions about his current performance and general capabilities. At the same time, his superiors may resent what they see as an attempt to make their decisions for them.

One of the most difficult restraints on the ambitious executive relates to his creative expression. Those who produce new ideas, procedures, and products, or who excel and extend the horizons of knowledge and understanding, often get negative reactions from superiors, equals, and even subordinates who resent innovation as rocking the boat.

Creative expression of ambition inevitably results in change, and it is generally true that people resist changes they do not originate themselves. Changes introduced by others are unsettling and can seem threatening to one's status and security.

### **Other factors involved**

The relationship of ambition to promotability involves still other personality elements. There's a close association between ambition and loyalty to the firm, a characteristic often rated second only to ambition.

Traditionally, the man who gives himself unselfishly to the interests of the company has been regarded as having a corporate virtue. Given sufficient time, hard work and a strong desire to grow, he should find his rewards in the executive suite.

However, this self-sacrifice may not be an unmixed blessing. If an individual gives his all to the firm, he may, in the long run, reduce his value to the organization by failing to gain adequate personal development and professional advancement.

One case dramatizes this point. An executive had

dedicated himself not only to the company, but also to the chief executive officer personally. During the early years of the business he averaged 10 to 14 hours at work six to seven days each week, and was recognized as having been instrumental in the development of his company's technology and products.

However, during this period he had no time to diversify his efforts or interests, nor for systematic involvement in programs of personal and professional development. Then one day he was replaced by another man who had achieved a good deal of managerial growth.

When the displaced executive sought new opportunities, he found himself hamstrung not only by his lack of concentration upon self-development and the stigma attached to the loss of his former position, but also by the close, loyal identification he had maintained with his chief. Those who liked and had relationships with his former boss were reluctant to hire him and those who disliked his superior would have nothing to do with him.

At the other extreme are men who pursue a program of calculated self-interest. They run the risk of never sharing in key decisions and of missing opportunities for development because they appear too absorbed in their own advancement to aid others.

Strict devotion to one's self-advancement allows no room for appraisal of others. A person in this category fails to see that his progress depends upon assisting others, especially those who have the power to promote or to block.

The pursuit of ambition itself may give rise to difficulty for the aspiring executive. He may find himself caught between loyalty to his superior and to the general interests of the firm, or between loyalties to two or more superiors.

### **Cross-industry analysis**

There is speculation on the varying significance of ambition as a promotion factor in different industries and among specific groups of executives. The research at UCLA analyzed participants by industry, age, income, position, and other factors.

It is striking how different executive groups in diverse industries consistently stress ambition as a key factor in promotion. Some variations in emphasis must be noted, however. One is that between line and staff.

A greater proportion of line executives regards ambition as an aid to promotion than do staff men. This is not surprising, in view of the traditional responsibility of the line executive for seeing that things get done, while the staff role is centered on advising and counseling.

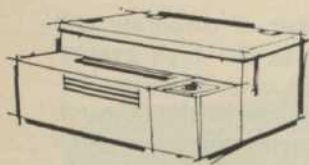
Actually, the staff man may have as much ambition as his line counterpart, but expressing it is not considered as much of an asset to his job. He well knows who has authority to promote, as well as the right to accept or reject staff offerings.

It remains for the chief executive to place the greatest value upon this element of ambition. Since he has successfully climbed to the top and is aggressive and dynamic, he looks for these qualities in others. Moreover, he recognizes that the survival and growth of the firm depend upon the selection of driving,

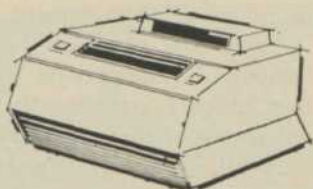




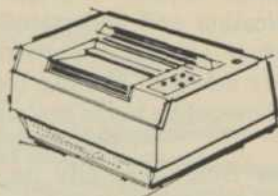
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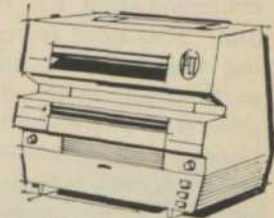
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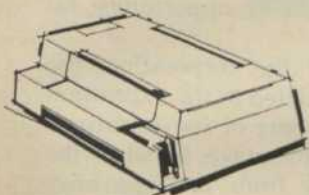
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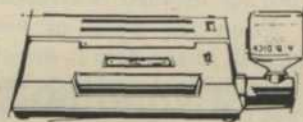
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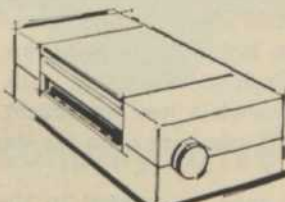
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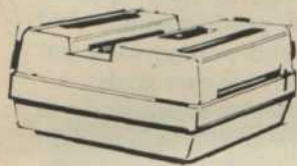
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## HOW MEN GET AHEAD

*continued*

purposeful individuals who will give direction and thrust to the organization.

One of the chief executive's problems is effectively communicating his requirements to others around him. This need for communication and understanding was reflected further when all the executives participating in the study were asked to identify the criteria employed by the chief executive in his evaluations.

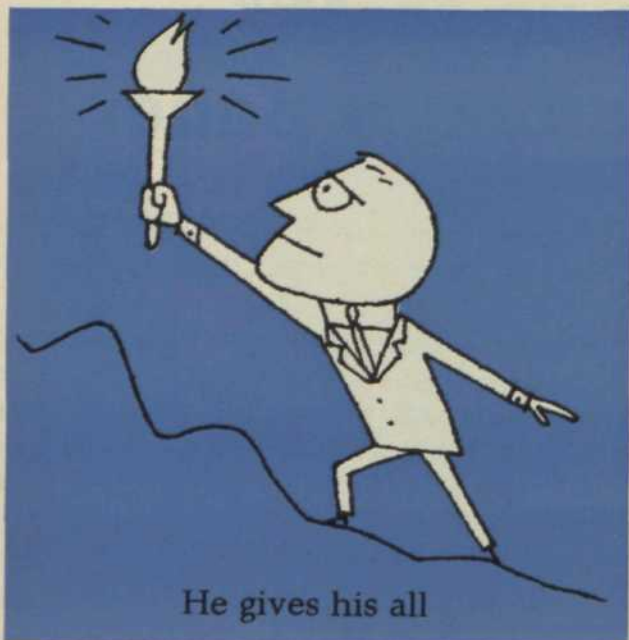
Executives below the top rung generally saw ambition as the number one personality criterion employed by the chief executive in his appraisals and promotion choices. But they underestimated just how much value chief executives place upon ambition.

While the head man gives ambition the highest rating, for those of his colleagues who have been somewhat less successful, ambition holds diminishing importance as the years pass. Each successive age category regards ambition as somewhat less important, although its significance is still apparent even for the older groups.

This change in evaluation may be related to the adjustment noted in firms in which many executives begin a process of protecting and saving themselves for the years ahead. The adjustment starts as early as their late thirties and early forties. Men modify their goals, develop outside interests, find channels for their needs other than that of vertical mobility, and concentrate upon solidifying their positions in the company.

### **Self-search is helpful**

In any investigation the question can be raised whether the respondent is giving his information relative to how it affects others or how it affects himself. There may be real differences between the way a man views the promotion of himself or of others.



To test this point the study participants were asked to look at their own past promotions and to evaluate the elements which had been influential. Again they ranked personality as one of the major factors, and of all personality elements ambition was called most significant. When the managers were asked to anticipate the requirements they must meet for further advancement, they again indicated ambition as the prime personality element.

There are, of course, a number of corporate and individual implications related to the high evaluation which is consistently placed upon ambition, aggressiveness, and drive. Participants in the research were all executives who had reached relatively high levels.

There is no question that executives of the 40 different companies were generally growth-oriented and those who were not already in the chief executive's slot looked forward to getting there. For most of these individuals frustration increases as opportunity for moving upward decreases.

From the point of view of the corporation, the growth of the firm is directly related to the expression of individual ambition on the part of its executives. Yet this is not entirely a free advantage, for while the firm may reap many benefits from the aggressive individuals, it must also provide an environment compatible with their needs.

Executives in the various companies say they promote ambitious, driving men for a number of reasons. They believe that they gain high work output from the individual himself. Moreover, in their opinion, the ambitious executive sets a good example, and will be on the job supervising and pulling work out of the others as he strives to meet his own goals.

The firm sometimes has to make concessions to the ambitious. They may have to be advanced in order to forestall their expressions of discontentment and negative influence upon the informal organization. And, if they are not moved along at a rapid rate, they may leave the firm and join the competition. Consequently, the firm needs to grow in order to provide promotion opportunities.

A prime requirement for the effective realization of the manager's ambition is his possession of an excellent sense of appropriateness relative to the amount, manner and place in which this attribute should be expressed. The line between success and failure is very fine.

It appears that the ambitious, driving, aggressive individual is challenged by possessing a unique combination of ingredients in his personality that may aid him in one day becoming a titan of industry or see him rejected, frustrated and nursing his ulcers in some bypassed industrial outpost.

It is not in the listing of the ingredients themselves that the understanding of success lies. It is in recognizing the complexities involved in their application to the day-to-day performance of the executive's job.

**END**

REPRINTS of "How Men Get Ahead" may be obtained for 30 cents a copy, or \$14 per 100, or \$120 per 1,000 postpaid from Nation's Business, 1615 H St., N.W., Washington, D.C. 20006. Please enclose remittance.



## THE DEPENDABLES: SUCCESS CARS OF '64



**Company on an economy drive?**



**We're with you!**

If you're looking for economy in a company car, look at Dodge for 1964. Dodge economy starts with a low initial price. Priced right down with Ford and Chevrolet. But don't let that low price throw you. This one's got more—delivers more than a low price ever bought before. That's why it's called the low-priced car that doesn't look or feel like one. Dodge starts out economically and keeps going that way.

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changes and brake adjustments. To keep up appearance and keep down rattles on the road, there's a rust-protected, unitized body. Stays tight, delivers as smooth a ride as you could ever ask for. There's economy up front, too—in two standard engines. A tight-fisted 6 or hot V8. Both deliver top performance and do it on regular gas.

1964 Dodge—a great one for performance, a great one for economy, a great car for your company. See it soon.

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GIVES US  
SOUND VALUE.  
IT'S WHAT  
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EMPLOYEES  
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**GERRY E. MORSE**, Vice President, Employee Relations, of Honeywell,  
leading maker of automatic controls for everything from homes to space vehicles

"For more than 10 years, we have looked to Blue Cross for hospital expense protection. We've been satisfied with their fine service. Blue Cross benefits are broad. The cost range is very advantageous. In addition, Blue Cross has the enthusiastic acceptance of our people which is a valuable employee-relations factor. We find, too, Blue Cross has the flexibility to meet changing conditions and assure us an up-to-date program." (To get specific details on this famed hospitalization protection, now chosen by more than 383,000 companies, contact your local Blue Cross Plan.)

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BLUE CROSS ASSOCIATION, INC., 840 NORTH LAKE SHORE DRIVE, CHICAGO 11, ILLINOIS

## BUILD ON SUCCESS

*continued from page 39*

show the greatest growth and the highest return on investment over a period of years.

One of the great performance records in retailing over the past 10 years has been compiled by Julius Garfinckel & Co., the Washington-based group of specialty stores that also controls DePinna and Brooks Brothers of New York City. Garfinckel's President Richard P. Dunn says:

"Our determination is not to be pulled this way and that by one-year forecasts. For one thing, it takes us two to five years to carry through an expansion step, so we can't blow hot and cold over every change in the one-year outlook. We're always planning expansion because we expect the economy to grow over the decade and also because we think a bigger proportion of the population will be able to buy our higher quality goods."

### **Spend for profits**

With the same emphasis on the long look, Mr. Dunn prefers not to think about spending as a thing to be done in good times and avoided when business slackens.

"My concern is that we should not hesitate to spend whenever it leads to a profit, but never waste any of our resources with unnecessary spending."

Mr. Dunn recalls his days as a stockbroker when he says, "I never forget the old Wall Street maxim, 'Take your losses. Let your profits run.' Applying this to merchandising, our credo here is that, 'If an item isn't going over, drop it. If it's a hit, don't be afraid to spend money on it.'"

"The important thing is to think this way all the time, not just when things get tough. There's never a good reason for leaning back and relaxing."

This closely parallels Mr. Haile's further explanation of the Union Carbide philosophy. "The person who thinks of cost reduction in terms of emergency budget cuts or a temporary deferral of expenses will probably improve his earnings only in the short run and possibly at the expense of service or quality," he says.

"He is usually waiting for an idyllic prosperity to return, with the idea that price pressures will be eased and the business world made safe for the old intemperate ways. I don't think we will ever return to



those days. The idea of working hard in periods of recession and easing up in periods of prosperity was never a good one and it is certainly not good enough today.

"There will be no periods in the future when we can afford to ease up."

It is noteworthy that executives in such different lines, talking from separate cities and without knowledge of each other's comments, express such similar views. Their conviction clearly is shared by many thoughtful leaders.

One executive in the Southwest says he thinks of good business years just as Benjamin Franklin thought of youth—as a time to plan and store up for the future:

"This doesn't mean any gloomy assumption that business is bound to slow up as our company gets older. I try to remember that good sales and high profits are a special favor, like a good crop year for a farmer, and that this is the easiest time to prepare for other kinds of years.

"Anybody who has lived through a recession knows that those months when the indicators are sliding can be frightening. You feel panic—often worse than the situation warrants—because nobody can be sure just how far things will drop. That's the worst possible time to take quick action—to tighten expenses, change personnel, shift the product line.

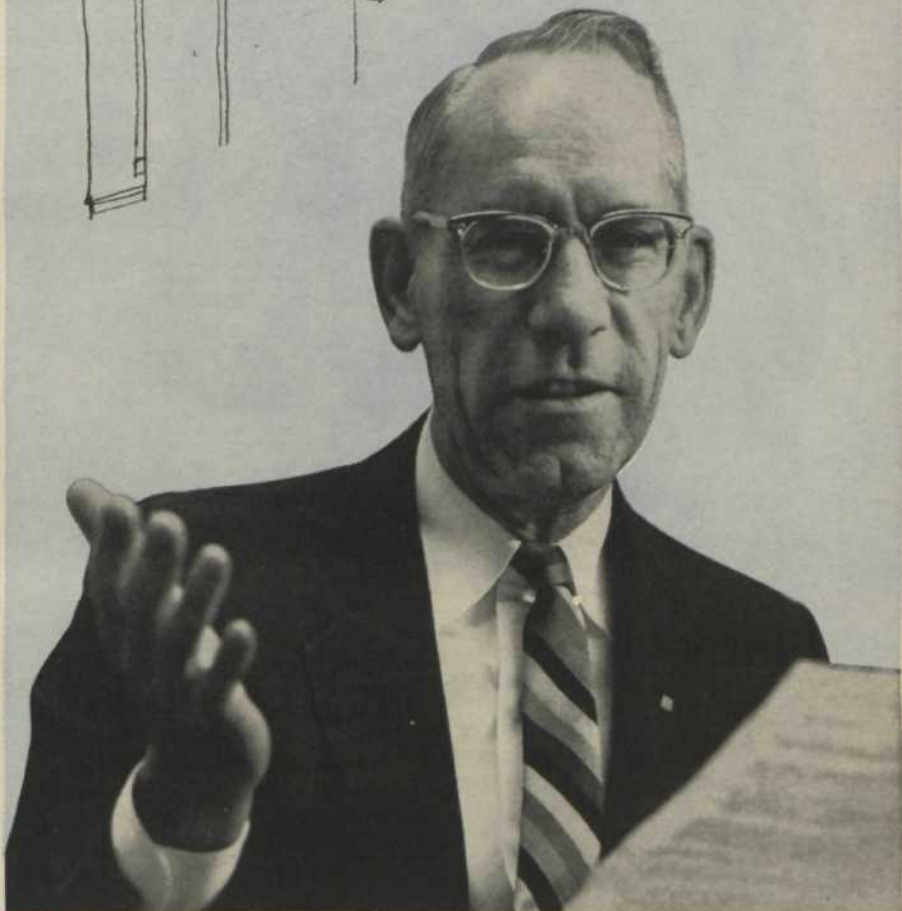
"For instance, if you give a few inefficient people a warning or a salary cut or a dismissal notice when things look dismal, everybody else who hears of it thinks there's a crisis and starts wondering where the ax will fall next. But if you do some of those things when it's obvious that there is no general need for worry, it's taken to be just what it is—a refusal to accept second-rate performance. And that's good for morale."

#### Import change coming

An important caution of a different kind is sounded by Walter K. Joelson, manager of planning and forecasting research for the General Electric Co.

He agrees that business is better than many thought possible a year ago, but he warns that competition is growing, especially from foreign goods.

"As foreign industries succeed in establishing effective sales and service outlets, imports will increase at a much faster pace," Mr. Joelson says. He explains that foreign penetration of our markets doesn't always last but it often leaves a



GERRY E. MORSE, Vice President, Honeywell

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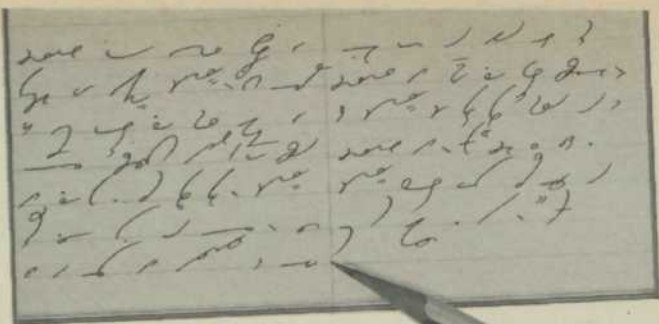
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## BUILD ON SUCCESS

continued

lasting mark on the structure of an industry. "In time, American manufacturers meet foreign prices in an endeavor to defend their market position. Then imports recede, but profit margins in these lines suffer."

The import flow is uneven in its effect on U. S. firms. If you are a manufacturer, you may be badly hurt by imports, or you may be able to adapt to the new situation—perhaps even using cheaper imported components to make your final product.

On the other hand, many merchandising firms welcome imports because of customer interest.

Each industry and each company has to find for itself what a bigger inflow of foreign goods will mean. Although the next surge of imports that Mr. Joelson foresees could be delayed for two or three years, the change from a protected to an international market for all industries in this country is almost a certainty.

And the period immediately ahead is ideally suited to making the necessary adjustments while most companies have the time and profits to do it.

### Reach for opportunity

Not one of the men quoted is an advocate of timid half-measures. All are expansion-minded. Their firms have growth records well above average. They urge now, at a time when the sailing is relatively smooth, that businessmen chart a course for a long voyage rather than look ahead for only a short period.

In most cases the long look results in decisions to reach out for growing opportunities, but it is not the quick grasp of the short-term speculator; it is the confident reach of the investor who is unruffled by brief ups and downs.

Managers who have seen good times come and go want their colleagues to remember that business runs in cycles, that it's just as important to have a little streak of cynicism in the boomiest of times as it is to have a hard core of optimism when everything looks black.

The businessman who will win out over the long pull is one who, in Kipling's words, "... can meet with triumph and disaster, and treat those two impostors just the same."

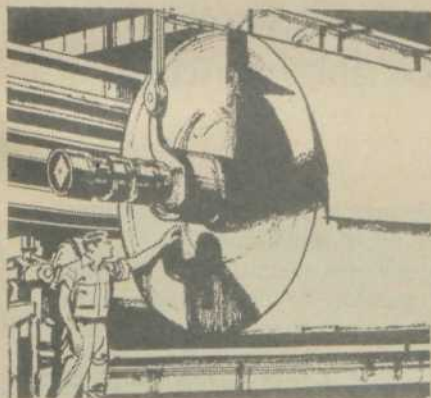
—CHARLES A. CERAMI



## SOUTH'S 12-YEAR GAIN IN PAPER AND PAPERBOARD OUTPUT NEARLY DOUBLES RATE OF U. S. INCREASE

*Alabama, Georgia, Florida and Mississippi Area  
Scored an Advance of 120 Percent*

Since 1950, mills in the South have scored an increase of 94.3 percent in the production of paper and paperboard, as compared to a national average gain of 54.4 percent in the same period. In Alabama, Georgia, Florida and Mississippi, production rose a sharp 120 percent, far ahead of both the national and regional rates of gain.\*



In 1962, the output of paper and paperboard in 15 Southern states totaled nearly 16 million tons, or 42 percent of the tonnage manufactured in the United States. In the four-state area, where growth has been particularly rapid, production of 7 million tons amounted to 43 percent of the entire South's output.\*

The Southern Company system is an integral part of that rapid growth pattern—past, present and future.

During the period 1953-63, inclusive, Southern's affiliated companies—Alabama, Georgia, Gulf and Mississippi Power Companies and Southern Electric Generating Company—spent nearly one and one-half billion dollars for generating plants and transmission and distribution facilities. Another \$600 million expansion program is planned for the period 1964-66.

The facts tell a story of opportunity in the new South.

Significant and continuing growth in this four-state area is shown by these pertinent comparisons:

Rate of Gain 1952-1962	4-State Area	United States
Total Personal Income . . .	89.9%	63.4%
Construction Employment . .	30.1%	10.4%
Electric Power Production . .	148.1%	103.7%

SOURCES: U. S. DEPT. OF COMMERCE, U. S. DEPT. OF LABOR AND FEDERAL POWER COMMISSION

*Power and Progress . . .  
Partners in the New South*

\*SOURCE: U. S. DEPARTMENT OF COMMERCE

### THE SOUTHERN COMPANY



3390 PEACHTREE ROAD, N.E., ATLANTA

Alabama Power Company.....Birmingham, Alabama  
Georgia Power Company.....Atlanta, Georgia  
Gulf Power Company.....Pensacola, Florida  
Mississippi Power Company.....Gulfport, Mississippi  
Southern Electric Generating Co....Birmingham, Alabama  
Southern Services, Inc.....Birmingham, Alabama



# GEORGE GALLUP LOOKS AT TOMORROW'S CUSTOMER



BUSINESSMEN CAN PINPOINT customers and markets with much greater accuracy now and in the future, says Dr. George Gallup, internationally known pioneer of research in public opinion, advertising and marketing.

The founder of the Gallup Poll, whose organization has asked Americans millions of questions for a generation, was interviewed by a *NATION'S BUSINESS* editor, seeking his views on business sensitivity to public attitudes and desires.

Dr. Gallup predicts styles and opinions will change more rapidly. But better techniques will be available for appraising buying intentions. Even now you can better identify potential customers by demanding more from your marketing research force. He also

suggests how individuals may increase their capacities in problem-solving and decision-making.

Teacher, author and business executive, Dr. Gallup is widely known for methods he has developed to measure public opinion, readership interest, advertising effectiveness, and marketing success. He founded the American Institute of Public Opinion in 1935. Affiliates of the Gallup Poll now operate in 23 foreign countries.

He is founder or head of a half dozen business organizations in the research field and a member of the boards of directors of eight corporations, foundations or organizations.

**Dr. Gallup, do you think that in America today we are forming opinions and making decisions in too spontaneous or too shallow a fashion?**

Yes, I do. That would be the chief criticism I would make of the thinking of the great multitudes of people, of the people we poll every week. Not that the thinking isn't rational; it is. But it isn't carried out far enough. It doesn't go deep enough.

If people can stretch their thinking and do some deeper thinking in forming their opinions, we will have not only a better informed and a better thinking society but we will be able to exercise these opinions in a way that will improve our democracy. I think that is the direction in which we have to go.

There are tremendous potentialities in the mind of each person. The electronic computer has only served to point out the real greatness of the human mind, and the more we learn about it the more we are amazed by this organ and how essentially little we use it.

It's a fact that civilization is still in its infancy.



We haven't yet the slightest idea of what we can do, the heights to which we can go if we start using this one feature of man that separates him from all the animal world.

**Is public opinion being molded in any new ways today?**

I think it is very important to point out that current events have a far greater impact upon opinion than many people might think. We have noted through the years, in presidential campaigns and other election campaigns, that opinion seldom changes very much on the basis of what a candidate says. But tremendous changes are caused by events.

Now the extent to which the modern world has quick and easy access to the news of the world, to that extent opinion does change. If there were some great crisis today in almost any part of the world, you

can be sure opinions would shift mightily; maybe in a matter of 24 hours.

Otherwise, opinions on most things are formed over the basis of a long period of time, and unless there is some dramatic event they don't change very much. People's ideas about religion or education change very slowly because they are a product of many years, many influences, and one just couldn't expect them to change very rapidly.

But then there is an area of opinion which is highly volatile and, as I say, can be shifted very much by events.

**Such as fads, taste changes, styles?**

Yes. There are definite cycles in these things. People eventually get tired of certain ways of thinking.

**What suggestions do you have, based on your experi-**

To study the future, you must study the young, George Gallup recommends; for their values and attitudes will set our styles

PHOTO: ROBERT PHILLIPS







## Which business forms save the most money?



The ones that do two or more things at once. ■ Like a salesman's order form that includes an invoice form. Completing one automatically completes the other. ■ Or how about a purchase order, acknowledgment form, receiving report and inventory report...all produced with one typing. ■ Extra-duty forms are our business. We sell *ideas*, mainly, not just paper. Just call or write. No obligation.



**Burroughs Corporation**

TODD DIVISION/Rochester, N.Y. 14603

## LOOK AT CUSTOMERS

*continued*

ence and knowledge of public attitudes, as to how businessmen can better read the public mood and predict trends and changes?

There is the likelihood of change at a greater speed in the future in the whole field of commerce and industry. In the area of tastes and interests there is great change, and it is likely to increase. It is important, and I think we have the research techniques which give a very good early indication of change.

Most business people are not familiar enough with the things that research can do. Most of them are aware that you can go out and find why people buy one kind of toothpaste instead of another; at least you get their own rationalizations for buying one instead of another.

But few people in business realize the very wonderful things that can be done in research.

For example, in dealing with unemployment it would be easy to set up the statistical machinery so it would be possible to know the amount of and the kind of unemployment in every community in America, and the causes of it. And with that information I would think that we could make a far more intelligent approach to the solution of this problem.

Or in the field of medicine, a single research computer center maintained by the medical profession itself could process case histories which, for the most part, are filed away in the basements of hospitals all over the country. There are millions of facts that are never used. All of this information could be processed. And if they added a few facts about environmental information, the whole medical profession could lift itself to a new level.

**What about the commercial area? Is there enough understanding of consumer expectations or consumer buying intentions?**

Well, there isn't enough understanding of the best kind of research. The whole field of market research has gone through many stages. It is still young. It is probably more of an art than a science. Market research has gone through the same stages, I think, and is going through the same as we have gone through in political research.

We look back 30 years and we shudder at the crudity of our methods. They were basically right, but

our procedures are as different today from the procedures of 1933 and 1935, when we were getting started, as a jet plane is different from an airplane of that era. There is a growing sophistication.

I think that most people in the business world are not sufficiently familiar with the sophisticated kind of research that is possible today, especially in the field of determining trends and tastes.

**How can they make better use of the more sophisticated procedures? Is it something their marketing department can do for them?**

In many cases it is. I think one of the problems is that most people in business don't demand the kind of answers which they could get from their market research departments. They think of research in terms only of the answers we used to be able to get.

If the leading firms in the country said we want to know a lot more than we do about the changes in people's interests and tastes and we expect you to go out and find that, I would be willing to gamble that they would be able to get a lot of tremendously useful information which they don't have today.

**Many large companies know how many people have bought their products, their ages, their incomes, and various other facts about them. Should this be in more depth?**

Far more, yes. There is probably a minimum of 200 different facts that you should research in the process of arriving at why people buy a certain product. You need to explore the whole background, the psychological and other factors. I am convinced that you could put your finger on and identify this person a lot better than anybody has ever identified him before.

**So businessmen could pinpoint their markets better than they do now?**

Far better. And, in the end, do it more economically and reach exactly the kind of people they want and know all the influences that come to bear to bring a person to buy a certain product. Businessmen can identify this customer pretty much the way you would identify the environmental factors that increase a person's susceptibility to a disease. We have done research in this area.

I can explain with this example:

Just before the Salk vaccine came out we made a study of the influences that have increased the sus-  
(continued on page 74)





Azure blue STEELOX wall panels and white window wall units are typical of the pleasing appearance you get with an Armco Building. This 28,800-square-foot plant is at Muscatine, Iowa.

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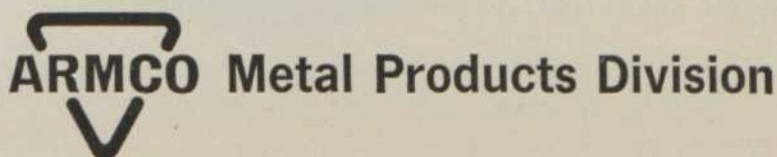
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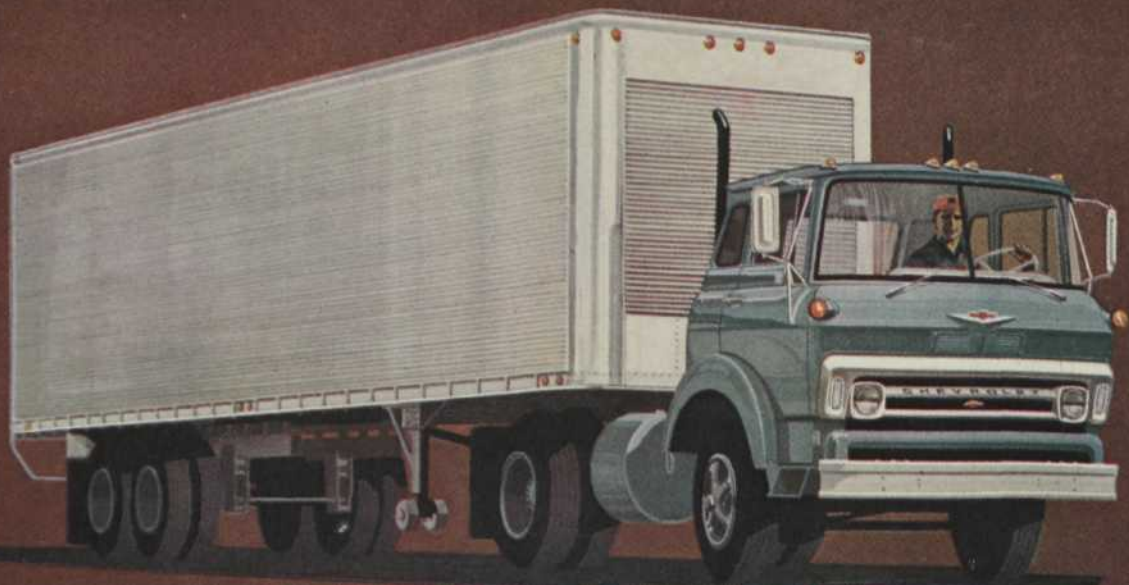
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*Series 80 diesel tilt-cab tractor with 40-ft. semi-trailer.*



*Series 80 tandem with 409 V8 engine and 10-cu.-yd. dump body.*



*Series 80 diesel tandem with 6-cu.-yd. concrete mixer.*



*Series 60 trailing-axle tandem with 292-cu.-in. Six engine and 16-ft. platform body.*





# NOW CHEVROLETS CAN DO MORE HEAVYWEIGHT JOBS

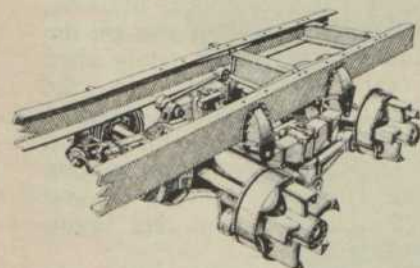
*New models and heavier duty options give more operators all the capacity they need at minimum cost*

Remember when Chevrolet made mostly lighter trucks?

Now look at the size of some of them.

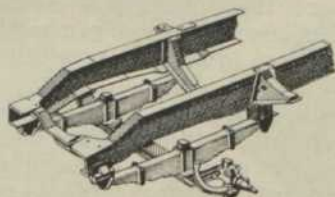
Not the world's biggest, no. But big enough to handle a lot of work that used to force you into more expensive trucks than you needed. More expensive to buy. More expensive to operate.

In recent years Chevrolet has added many new types of heavier duty models to the line and a number of significant big-payload extra-cost options. For example:



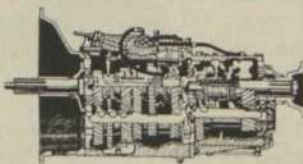
**34,000-LB. AXLES**

You can equip Chevrolet tandem axle models now (either gas or diesel) with the highly regarded 34,000-lb. Hendrickson bogie and Eaton axles, geared to your choice of engine. Its inter-axle differential with electric lock-out control gives you extra bite on soft ground, but allows easy running on hard. Single-axle Chevrolets are available with new 23,000-lb. rear axle—both single- and 2-speed versions.



**11,000-LB. FRONT AXLES**

And up front you can have big 9,000-lb. or 11,000-lb. I-beam axles—power steering included with the bigger axle. Front and rear variable-rate springs match axle capacities.



**ROADRANGER TRANSMISSIONS**

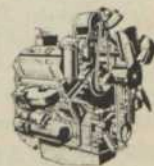
The Chevrolet line of transmissions has been extended to include extra-heavy 5-speed Spicer gearboxes and the multi-speed Fuller RoadRangers. Long haul operators should be glad to know this.

## **AUXILIARY TRANSMISSIONS**

For very tough off-road work, tandem users can get 3- or 4-speed auxiliary transmissions to give you the extra pulling power needed, for example, to come up out of loading pits without straining.



**409 V8 GAS**



**V6 DIESEL**

Top sizes of Chevrolet truck engines are the 409-cu.-in. V8 gasoline and the modern 2-cycle Chevy-GM 6V-53 Diesel. Both of these engines have proved their ability, on and off the road, to handle almost any heavy-duty work.

## **POWER STEERING**

Power steering takes a lot of the sweat out of handling a big truck and adds immeasurably to operating safety. You can have it on any Chevrolet heavyweight.

## **FULL-AIR BRAKES**

Chevrolet factory-installs full-air brake systems, trailer brake connections, and offers compressors with capacities up to 12 cubic feet.

These are some of the things Chevrolet has done recently to let you handle more heavyweight work without having to over-buy equipment. For complete information, call your Chevrolet dealer. . . . Chevrolet Division of General Motors, Detroit, Michigan.

**QUALITY TRUCKS COST LESS!**

*Telephone your Chevrolet dealer about any type of truck!*



*continued*

ceptibility to polio. We went to people, the families where a person had had polio. Then we matched that person exactly with a person the same age, the same sex, the same community, and by exploring every known idea of what were the causes of polio, we in one study came up with a half dozen findings which the medical profession in 50 or 100 years had never isolated. You can explore every facet of a business problem, just as you would if you were dealing with a disease.

**What will be the most important changes in the next few years in appraising public opinion and potential markets?**

One of the great problems we have in public opinion research is not finding out whether people are for Candidate A or Candidate B. One of the great problems we face in this country is finding out who is going to vote. The art or science has to be pretty much devoted to separating the people who will vote from those who won't because they are different in many ways.

If the people who didn't vote were typical of the people who did, there wouldn't be any problem. But they aren't.

I think in the field of business that computers will probably have a tremendous influence on the kind of research that is done. With a modern computer you can do what was impossible a few years ago. You can measure the influence of one factor and hold 40 others constant. Now it would have taken an army of people to have done that 25 years ago. So computers can be a handmaiden of research. This is going to be the great change in the next decade or two, this greater use of computers and feeding into the computers the data which the researcher gathers.

**Will there be any better way of finding out what people are thinking?**

Yes. We are finding as we gain more experience—and I think this is true of every researcher—better ways of getting at people's thinking. No one has ever found a better way of finding out what people think than by going directly to people and putting them through a cross-examination, as it were. But we are finding out how to check people's answers and how to be more certain that we are getting the truth.

And sampling techniques have been improved through the years. We have all come pretty much to a type of sampling called probability sampling which meets statistical requirements much better than the early type of sampling. This is a way of getting a true cross-section. So once you have gotten a good cross-section, then you do a skillful job of getting the truth from the people in that cross-section, and analyze this information in ways that are possible through computers. Then you have arrived at a new stage of research.

**You have been observing people for over a generation. Do people today still believe in the time-proven virtues of thrift, hard work, self-reliance?**

I would hesitate to say that we have found any difference in people's moral concepts. Religion has a tremendous hold on the population of the United States. There is a difference in the whole idea of work and thrift. I think there has been a change in the last generation or two. Even in my own time, when I grew up, the common recipe for success in almost any field was hard work and perseverance. Now when we ask the people of the country how one becomes successful we get back just one answer: education.

So the royal road to success today, people believe, is not hard work; it is education. And if we go across the country we will find that 75 to 80 per cent of all the parents want their children to go to college, and about 65 per cent actually have made pretty definite plans. Just one rather startling fact: in Iowa, this last year, 60 per cent of all graduating seniors from the high schools did go on to college.

So this becomes the road to success. I think thrift and hard work are regarded as important, but they are not thought of as the keys to success as they once were.

**Dr. Gallup, as the issues in our times become more complicated, isn't it necessary for people to become more informed and better educated at an accelerating rate just to keep up?**

I think that is absolutely true. However, one of my great quarrels with the whole educational thinking of the country is that we haven't given more attention to the idea that education is something that begins at birth and ends at death; and particularly today when there is such a vast amount of new knowledge pouring forth.

**In your new book coming out this month, "The Miracle Ahead," you**

**say that we can make more efficient use of our intellectual capacities individually and collectively. How can this be done?**

Well, first of all, we use only a tiny part of our intellectual equipment. The average person probably uses not more than five per cent of his intellectual abilities. To me, in this very fact lies the great hope of mankind. If in some way we can double that amount, then most of our problems can be solved.

As an employer of many hundreds of college graduates during my life, I think we have to turn the emphasis from teaching students to memorize a great mass of data and teach them how to use their minds. And progressively—as the volume of material pours forth, more data, more knowledge—people have to be more selective. They have to be taught what is important and what is not.

**How can individuals' capacities for thinking be expanded?**

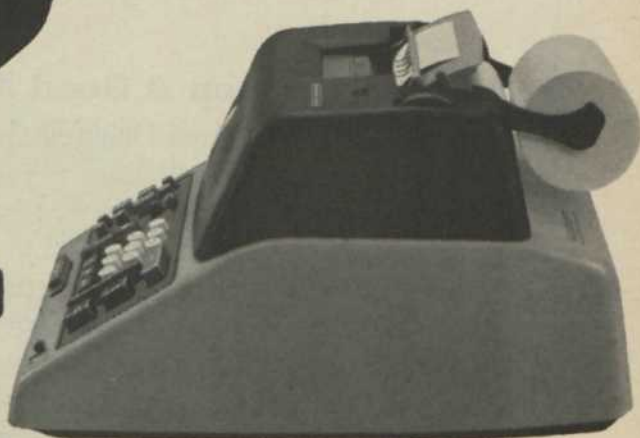
I think in this whole business of problem-solving and creative thinking that the scholars have vastly overemphasized the difficulties. There are probably few people in the history of the world who have had the wonderful opportunity I have had of observing and analyzing the views of literally millions of people in many, many areas; and the thing that strikes me is not that people think emotionally, whether it be in politics or in other fields—it is simply that most people do not carry their thinking beyond one stage. It is one-stage thinking.

If we ask a question you get the obvious answer. And it is only when you carry your thinking to the second or third or fourth stages. I mean, What happens then? and Why is this?—and you keep pushing people and you ask, Why do you say that?—this is the real brain-stretching process.

Now, most people are never pushed to that second or third stage. So my thought is to try to get people to go one extra stage, or to point out to them the advantages of doing so. Let's say that if I am making a decision I have two or three alternatives, so I decided first of all, after thinking about these three alternatives, I will choose Alternative A. Well, now, the good thinker says, All right. If I choose Alternative A what is likely to happen? He projects his action into the future. And then a very good thinker goes on and figures what is likely to happen after that, instead of just stopping as the typical person does



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## LOOK AT CUSTOMERS

*continued*

with merely weighing these three alternatives. If people project their thinking, they automatically become better thinkers, problem solvers, better decision makers.

Could this be worked backwards, too? If you ask yourself how you reach an opinion do you have a better basis for understanding your opinion?

Yes. And you usually come up with a reasonable answer.

But then it is the second and third time when you ask yourself why? After you have said, I think this because of that, if you then say to yourself why do I think that? It becomes a process of carrying your analysis one step farther than you normally would.

It is a very simple process, but it has all been surrounded by a fantastic amount of mystery.

You advocate the team approach to solving many problems, too, don't you?

I think this is the trend of the future. In almost every field—medicine, pharmaceutical laboratories, business, advertising agencies, the team approach is a very effective and useful way of attacking problems.

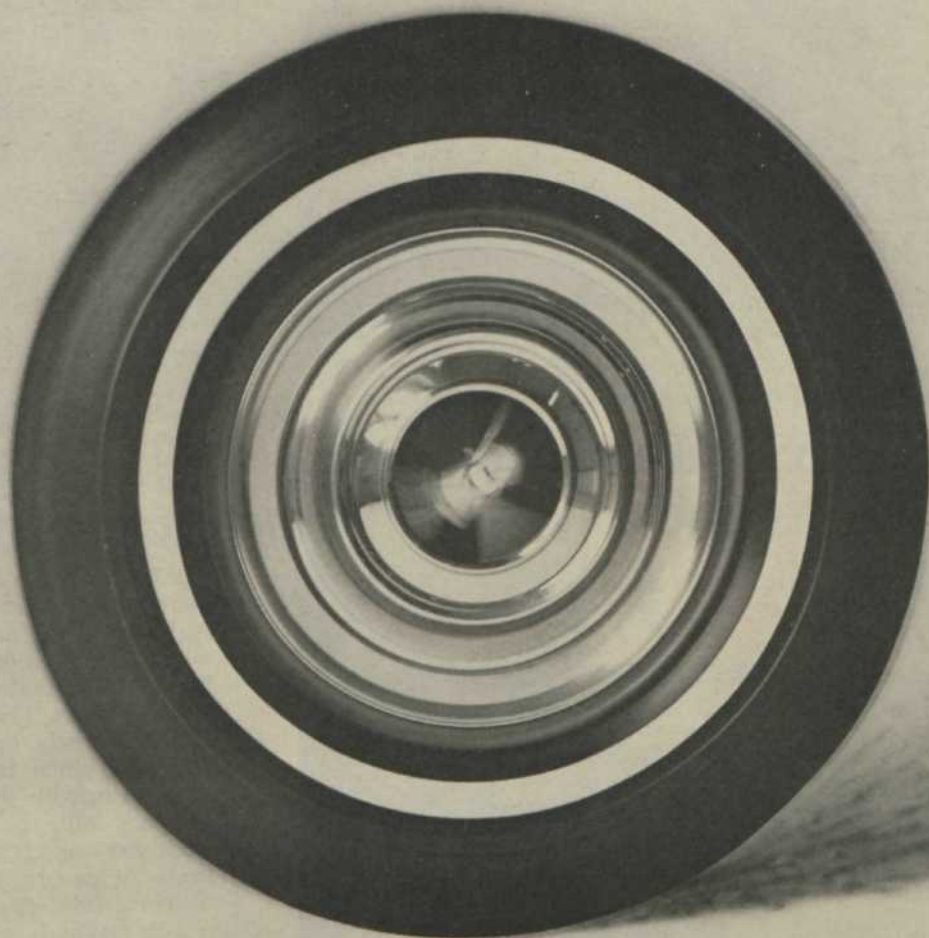
But many government and private committees are not effective. It is a matter of organizing the conditions. Millions of people now tend to work at the fringes of most of our problems—maybe I shouldn't say millions, but certainly thousands and thousands in government and other places. Very few people ever get right at the heart of a problem. You have to have these elements, I think: An absence of self-interest, a variety of differently trained minds, and you have to put them to work in isolation and direct them to the heart of the problem.

George Orwell pictured us heading toward an era in which people would surrender their individualism and live in an environment of conformity and intimidation. Is there any trend in our country in that direction?

I think probably there is a trend toward uniformity or conformity. The man who first pointed to this possible danger was Alexis de Tocqueville who wrote on America in 1835. His thought was that the great drive on the part of mankind was toward equality; not freedom, but equality. As we approach more



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## LOOK AT CUSTOMERS

continued

and more this condition of equality, there are certain dangers that the individual won't stand out in as marked a way. People begin to be a little more alike in what they think and what they do. You are giving up one thing for something else. I wouldn't describe myself as a rugged individualist, but I am on the side of individualism, and I look with some concern on this ever-present drive for greater equality—equality of incomes, equality of status, the same kind of houses, and everything else. After all, it is this individuality and different ways of looking at things that has helped us to advance. It is the differences which should be cultivated.

But I think we are intelligent enough to take corrective measures long before we get into any Orwellian situation where everyone is brainwashed.

## What significant changes in Americans' opinions, hopes and attitudes should businessmen watch?

Well, first of all, I think that the greatest changes, as I indicated earlier, are those that are brought about, and will be brought about, by the changing educational status of the people. This is a fact of life which is likely not to be given its full importance. It will have a great deal to do with the way that products are sold, the kind of products that are sold, the demand, the needs of people. Education has an all-pervading effect.

I think there is also a continuing trend—obvious quite a long time in the field of politics and business—in not taking extremes, in taking a middle-of-the-road position.

Finally, I think most business people don't pay quite enough attention to the young person who comes into the market—the man who is just getting out of college. His tastes usually prevail in the long run. If I were studying the future I would be a great student of the thinking of younger persons. I think entirely too much thought is given to older people.

Not only are younger people a large group coming into the market, compared with other segments of the population, but their particular values and attitudes are going to be with us as style-setters for the future. The sharpest way, if you want to look into the future, is to do a better job of ascertaining what these people are thinking. **END**





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# ***FIND YOUR COMPANY'S HIDDEN STRENGTH***

New examination may disclose key to your marketing success

BY PETER DRUCKER

HOW WELL YOU SELL in the future may depend on your ability to look at your business from an outsider's point of view.

A good deal of what is called marketing today is at best organized, systematic selling in which the major jobs—from sales forecasting to warehousing and advertising—are brought together and coordinated.

This is all to the good. But its starting point is still the company's own problems, its own customers, its own technology. The starting point is still on the inside. Yet it is not easy to find from the inside what a business gets paid for.

As experienced a company as Radio Corporation of America was convinced that the consumer would recognize and accept the RCA trademark on refrigerators and ranges when it entered the kitchen-appliance business in the 1940's.

RCA is, of course, one of the best known consumer trademarks for radios and television sets. To a manu-

facturer these are as much appliances as are kitchen ranges. For the consumer they are an entirely different category of goods, carrying different value connotations. Trademark acceptance did not carry over from radios to ranges.

People inside a business rarely can be expected to recognize their own distinct knowledge; they take it for granted. What one knows how to do, by and large, comes easy.

As a result the people in a business tend to assume, unthinkingly, that there is nothing to their knowledge or special ability—that everybody else must have it too. What looms large on their horizon

**Unusual questions may**

Who is not our  
customer? Why?

Who is not our  
competitor? Why?

*This article is adapted from a forthcoming book, "Managing for Results," to be published by Harper & Row. The author is professor of management at New York University and a consultant to some of the nation's leading companies.*



are the things they find hard. Sears Roebuck and Co. is a good example, precisely because few companies in the United States have so carefully analyzed themselves. To the outsider it seems obvious that Sears' most important knowledge area is buying: the design of the right merchandise; the selection of the right assortment; the selection of the source from which to buy—and, if necessary, manufacturing either in a wholly-owned plant or in partnership. Not much less important is selection of store location, architecture and design.

These, however, are not the knowledge areas which Sears people themselves stress. Both within their own

group and when talking to the public, they stress selling.

The people inside a business can be right or wrong in their appraisal of what it does and what it gets paid for. But they cannot take for granted that they are right. The least they can do is to test their judgment.

This is generally referred to as taking the marketing view. It has even acquired a fancy name: The Total Marketing Approach.

Not everything that goes by that name deserves it. Many a sales manager has been renamed marketing vice president—and all that happened was that costs and salaries went up.

Yet there have been enough serious efforts to disclose what is meant by a genuine marketing analysis, and how to go about it.

Here are some marketing realities that are likely to be encountered:

What the people in the business think they know about customer and market may be more wrong than right.

There is only one person who really knows: the customer. Only by asking the customer, by watching him, by trying to understand his behavior can one find out who he is, what he does, how he buys, how he uses what he buys, what he expects, what he values, and so on.

#### **Satisfactions for sale**

The customer may not buy what the business thinks it sells him. One reason for this is, of course, that nobody pays for a product. What is paid for is satisfactions.

But nobody can make or supply satisfactions as such—at best, only the means of attaining them can be sold and delivered.

A corollary is that the goods or services which the manufacturer considers direct competitors rarely define adequately with what and whom he is really competing.

Another important corollary is that what the producer or supplier thinks the most important feature of a product to be—what he means when he speaks of its quality—may well be relatively unimportant to the customer. The customer is not moved in the least by the manufacturer's troubles. His only question is—and should be: "What does this do for me?"

How difficult this is for some businessmen to

**uncover unexpected answers**

Who or what could  
take away our market?

Whose market could  
we profitably enter?



## HIDDEN STRENGTH

*continued*

grasp, let alone to accept, their advertisements prove. Many stress how complicated, how laborious it is to make this or that product: "Our engineers had to suspend the laws of nature to make this possible." If this makes any impression on the customer, it may be the opposite of that intended: "If this is so hard to make right," he may say, "it probably doesn't work."

All this implies that we know who the customer is. However, a marketing analysis has to be based on the assumption that a business may not know and needs to find out.

Not who pays but who determines the buying decision is the customer.

The customer for the pharmaceutical industry used to be the druggist who compounded medicines either according to a doctor's prescription or according to his own formula.

Today the determining buying decision for prescription drugs clearly lies with the physician. But is the patient purely passive, just the man who pays the bill for whatever the physician orders for him? Or is the patient—or at least the public—a major customer, what with all the interest in, and publicity for, the wonder drugs? Has the druggist lost his former customer status?

The minimum number of customers with decisive impact on the buying decision is always two: the ultimate buyer and the distributive channel.

A manufacturer of processed canned foods, for instance, has two main customers: the housewife and the retailer. Unless the retailer gives his products adequate shelf space, they cannot be bought by the housewife. It is self-deception for the manufacturer to believe that the housewife will be so loyal to his brand that she would rather shop elsewhere than buy another well known brand prominently displayed on the shelves.

Which of these two, ultimate buyer or distributive channel, is the more important customer is often impossible to determine. There is, for instance, a good deal of evidence that national advertising, though ostensibly directed at the consumer, is most effective with the retailer and indeed the best way to move him to promote a brand.

But there is also plenty of evi-

dence—contrary to all that is said about hidden persuaders—that distributors, no matter how powerfully supported by advertising, cannot sell a product that the consumer, for whatever reason, does not accept.

The customer tends to be more difficult to determine for industrial than for consumer goods. Who is the ultimate consumer and who is the distributive channel for the manufacturer of power equipment for machinery—the purchasing agent of the machinery manufacturer who lets the contract, the engineer who sets the specifications, the buyer of the completed machine? While the latter is usually without power to decide from which maker the parts of the machine (for example, the motor starter and the motor controls) should come, he almost always has power to veto any given supplier. All three, if not many more, are customers.

### **Needs are varied**

But what if no identifiable customer can be found for a business or an industry? A great many businesses have no one person or group of persons who could be called their customer.

Who, for example, is the customer of a major glass company which makes everything as long as it's glass? It may sell to everybody,

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**You have a direct interest in nation's gold flow. Outlook is explained on page 34**

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from the buyer of automobile instrument-board lights to the collector of expensive hand-blown vases. It has no one customer, no one particular want to satisfy, no one particular value expectation to meet.

There are two very large and important groups of industries in which it is difficult and sometimes impossible to identify the customer: materials industries and end-use supply (or equipment) makers.

Materials businesses—steel or copper, for instance—can usually be understood best in terms of markets. It is meaningful to say, for example, that a certain percentage of all copper products go into the construction market, though they go to such a multitude of different customers and for such a variety of end-uses that these two dimensions may well defy analysis. It is

meaningful to say that the adhesives all serve one end-use: to hold together the surfaces of different materials, though neither customer analysis nor market analysis may make much sense.

The view from outside has three dimensions rather than one. It asks not only "Who buys?" but "Where is it bought?" and "What is it bought for?" Every business can thus be defined as serving either customers, or markets, or end-uses. Which of the three, however, is the appropriate dimension for a given business cannot be answered without study. Every marketing analysis of a business, therefore, should work through all three dimensions to find the one that fits best.

Again and again one finds that a dimension the people in the business consider quite inappropriate—customers or end-uses in a paper company, for instance—may actually be highly important, and that superimposing the findings from the analysis of one of these dimensions on another one (for example, analysis of a paper company in terms of paper end-uses, paper markets and paper customers) yields powerful and productive insights.

Even where there is a clearly identifiable customer, one does well to examine the business also in relation to its markets or the end-uses of its products or services. This is the only way one can be sure of defining adequately what satisfaction it serves, for whom and how. It is often the only way to determine on what developments and factors its future will depend.

These market realities lead to one conclusion: The most important questions about a business are those that try to penetrate the real world of the consumer, the world in which the manufacturer and his products barely exist.

### **Try unexpected questions**

After all the standard questions of a market study are asked, it is well to raise different questions that are rarely asked. They are the questions that force us to see the unexpected.

Who is the noncustomer, the man who does not buy our products even though he is (or might be) in the market? And can we find out why he is not a customer?

Equally important may be the question: What are all the things the customer buys? What does he do with his money and his time?

Normally companies want to know what share of the customer's total spending—his disposable in-



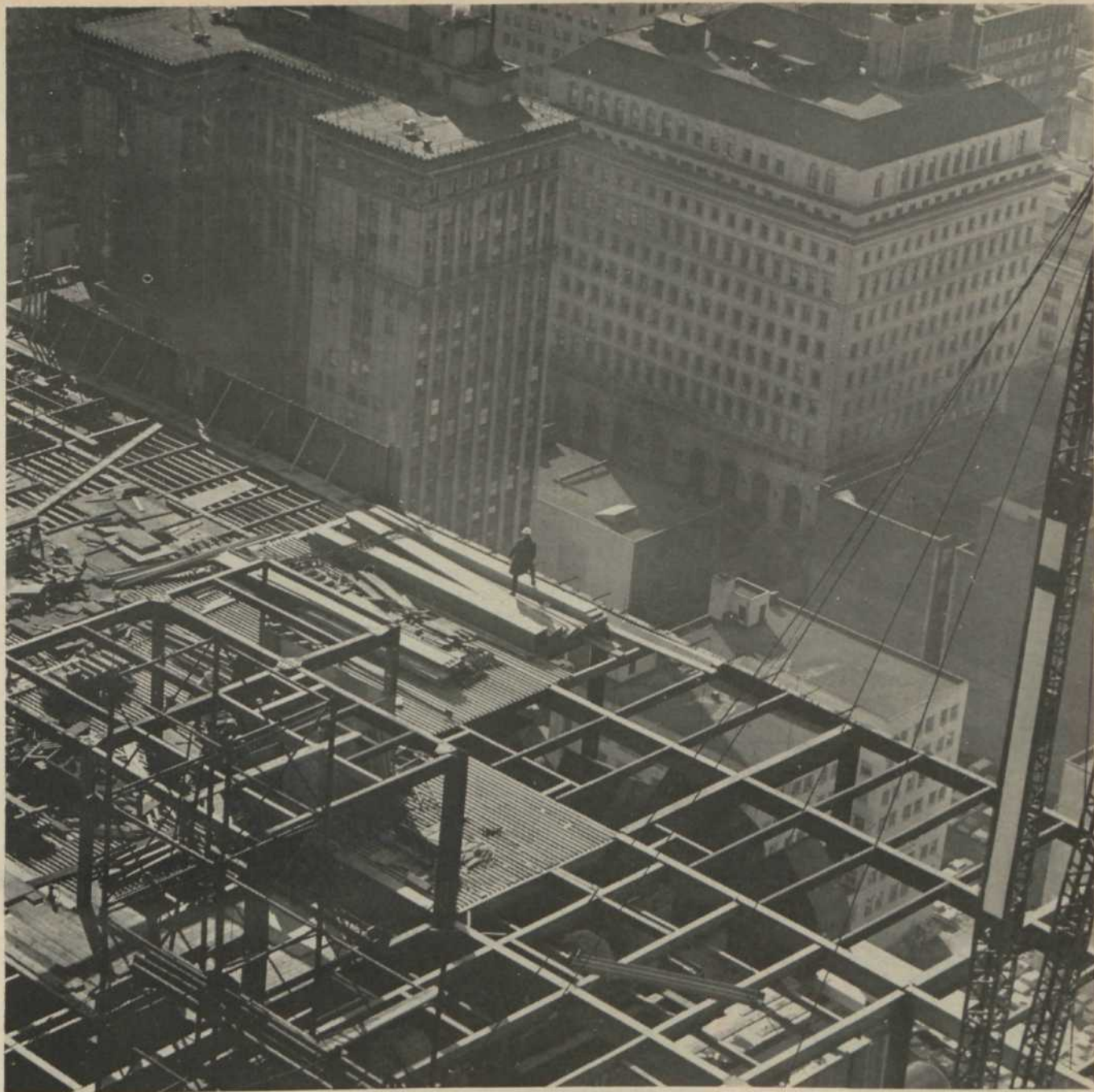


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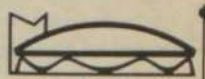
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## HIDDEN STRENGTH

*continued*

come, his discretionary income or his discretionary time—go for their products, and whether the share is going up or down. This is important, of course. But to have some idea how the customer disposes of all his money and time may tell a good deal more.

Asking this question brought out, for instance, that neither price nor quality determined purchasing decisions for the products of a major construction-materials manufacturer. What determined purchase was whether it could be accounted for as capital investment or as operating expense.

What made the purchase possible for one group of potential customers, especially public bodies—namely that the purchase appeared as an operating expense in their books—made it difficult for the other group, the private businesses, for whom a capital investment appears as an asset while operating expenses cut profit figures in the books.

The same products had to be packaged differently for the two kinds of customers: Public bodies got a 10-year rental in which the initial investment was paid off as part of an annual rental charge; private businesses were offered a capital asset at a price which included 10 years of free maintenance.

This leads in turn to other questions that are not asked in the ordinary market survey or customer study:

What do the customer and non-customer buy from others? What value do these purchases have for them? What satisfactions do they give?

Do they, indeed, actually or potentially compete with the satisfactions our products or services are offering? Or do they give satisfactions our products or services—or products or services we could render—could provide, too, perhaps even better?

What these questions might unearth are the value preferences of the market. How important in the customer's life is the satisfaction he obtains from us? Is the importance likely to grow or to diminish? And in what areas of satisfaction does he have new or inadequately satisfied wants?

This is, of course, very close to the crucial question: What product or service would fulfill the satisfactions of real importance, both those

we now serve, and those we might serve?

### **Example makes point**

An imaginative illustration is that of a South American soft drink bottler who, while doing well, noticed that he was rapidly approaching market saturation. He asked himself: "What new product would, in the present stage of our economy, most nearly resemble the satisfaction which soft drinks offered to the masses 50 years ago?" His answer was paperback books. The population, while still very poor, had become literate in the meantime. Yet books in South America are available only in a few stores in the large cities and then at prices which even the middle class can hardly afford. Paperback books, this man concluded, are, for today's population, precisely the small luxury which soft drinks were for the barefoot Indians half a century back. And in respect to merchandising, mass distribution, mass display and the need rapidly to return unsold merchandise, paperback books are almost exactly like bottled soft drinks. What the man learned about his business, in other words, is that it was not soft drinks; it was mass merchandising.

Four additional areas demand investigation.

First: What would enable the customers to do without our product or services? What would force them to do without? On what in the customer's world, economy, business, market do we depend? Is it economics? Is it such trends as the constant shifts from goods into services, and from low price into high convenience in an affluent society? What is the outlook? And are we geared to take advantage of the factors favorable to us?

Secondly: What are the meaningful concepts in the customer's mind and in his economy?

An example will explain this question:

When the automatic dishwasher was first developed, the makers went to great trouble and expense to make this new kitchen appliance look just like the clothes washer, an appliance the housewife had enthusiastically accepted. Since technically the two appliances are quite different, to make them look alike—especially in outside dimensions—was no mean achievement. Yet one reason why the dishwasher has so far been a disappointment to its manufacturers is the ingenuity that went into making it look exactly like its older cousin, the clothes

washer. For while it looks alike, it costs much more. To the housewife who is no engineer this makes no sense. If something has been made to look exactly like the automatic clothes washer, why then should it cost much more? In other words, the manufacturers put the automatic dishwasher into a set of concepts in which it created price expectations it could not meet.

### **Who doesn't compete?**

Another searchlight on the unexpected is a third question: Who are our noncompetitors, and why?

There is nothing that changes faster than industry structures. Yet few things appear to executives so much like a law of nature as the industry structure of the moment. Yet again and again total newcomers are suddenly the most effective competitors—especially when they offer the customer a basically different means of satisfying the same want. In no time, industry structure is fragmented. Yet the new one, as it stabilizes after a time, is again taken for the ultimate.

The question, "Who is our non-competitor?" logically leads to a fourth: Whose noncompetitor are we? Where are there opportunities we neither see nor exploit—because we do not consider them part of our industry at all?

Finally, one should always ask the question: What in the customer's behavior appears to me totally irrational? And what therefore is it in his reality that I fail to see?

To assume—as has lately become fashionable—that customers are irrational is as dangerous a mistake as it is to assume that the customer's rationality is the same as that of the manufacturer or supplier, or that it should be.

A lot of pseudo-psychological nonsense has been spouted because the American housewife behaves as a different person when buying her groceries and when buying her lipstick. As the food-buyer for the family, she tends to be highly price-conscious; she may desert the most familiar brand for a five-cents-off special. Of course. She buys food as a professional, as the general home manager. But who would want to be married to a woman who buys lipstick that way?

It is the manufacturer's or supplier's job to find out why the customer behaves in what seems to be an irrational manner. It is his job either to adapt himself to the customer's rationality or to try to change it.

END



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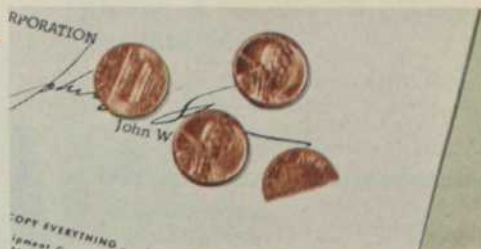


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## SAVING GOLD

continued from page 35

down or if its creditors fail to provide enough financing for payment of bills.

And so it is with nations. Americans have sent abroad some \$28 billion more than they've received since 1950.

So far, the U. S. has been more fortunate than a less robust country might have been. Most of the extra \$28 billion has been held by foreigners as what amount to I. O. U.'s. The rest has been paid out of America's cash reserves.

This country's cash reserves are the gold bullion buried at Fort Knox, Ky., and locked behind bars in the Federal Reserve Bank of New York. Foreign governments and central banks can buy this gold with dollars. But American and foreign individuals can't. The U. S. had \$24.6 billion in gold at the start of 1950. It had \$15.5 billion at the start of 1964. Foreigners hold the rest of the \$28 billion they've received in the form of dollar credits at banks or as treasury securities.

Why don't foreigners convert all their dollar credits to foreign currencies and why don't all central banks exchange their dollars for gold?

Mainly because dollars are useful and gold isn't. A vast number of banks, companies and individuals abroad borrow and lend dollars without the funds ever coming back to the U. S. The extent of this Euro-dollar market is unknown but estimates put it in the billions. Central banks and others keep interest-bearing American securities as investments. Central bankers reason that as long as the U. S. economy is working smoothly and its government appears likely to pay dollar credits in gold, the treasury securities are about as good as gold. In some cases recently, the central bankers have also avoided buying more gold in order to keep American reserves from falling too far.

Why, then, does a country convert any of its dollar credits into gold?

Prudence, mainly. Just as most individuals want to keep some of their funds in insured savings accounts or government securities for safety, foreign central banks want some gold in their vaults. Countries follow different policies. Britain's Bank of England traditionally converts 100 per cent of its dollars to gold to back the sterling system. Germany holds less than 50 per cent.

Interest rates and economic prob-



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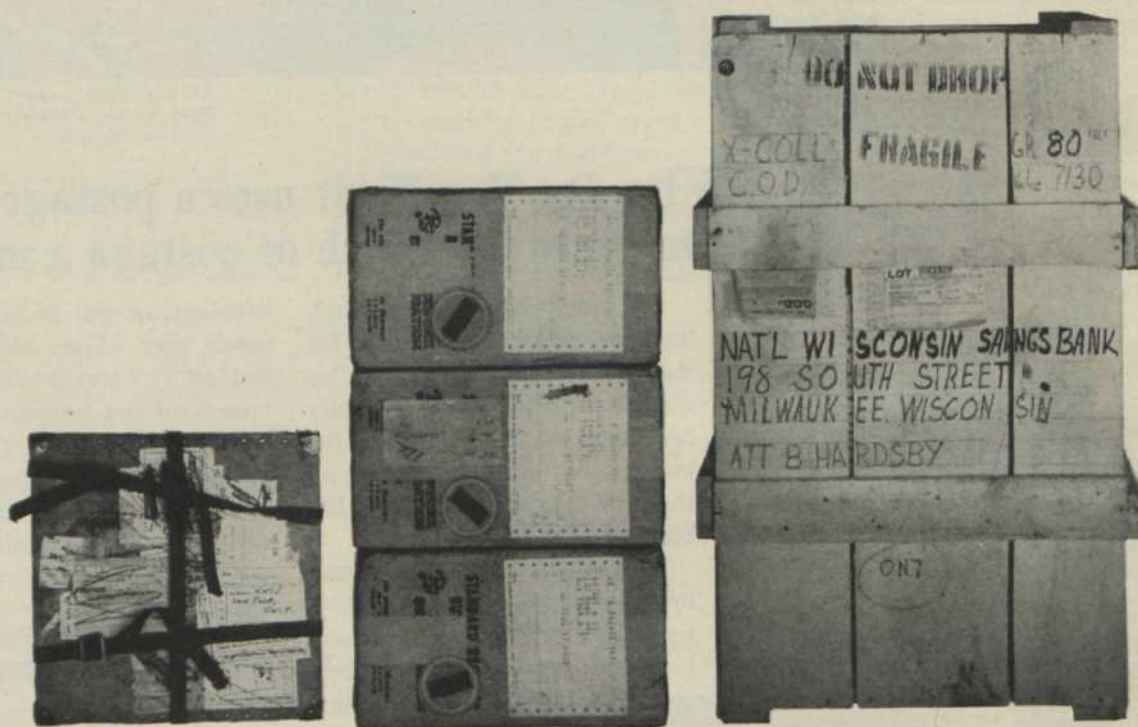
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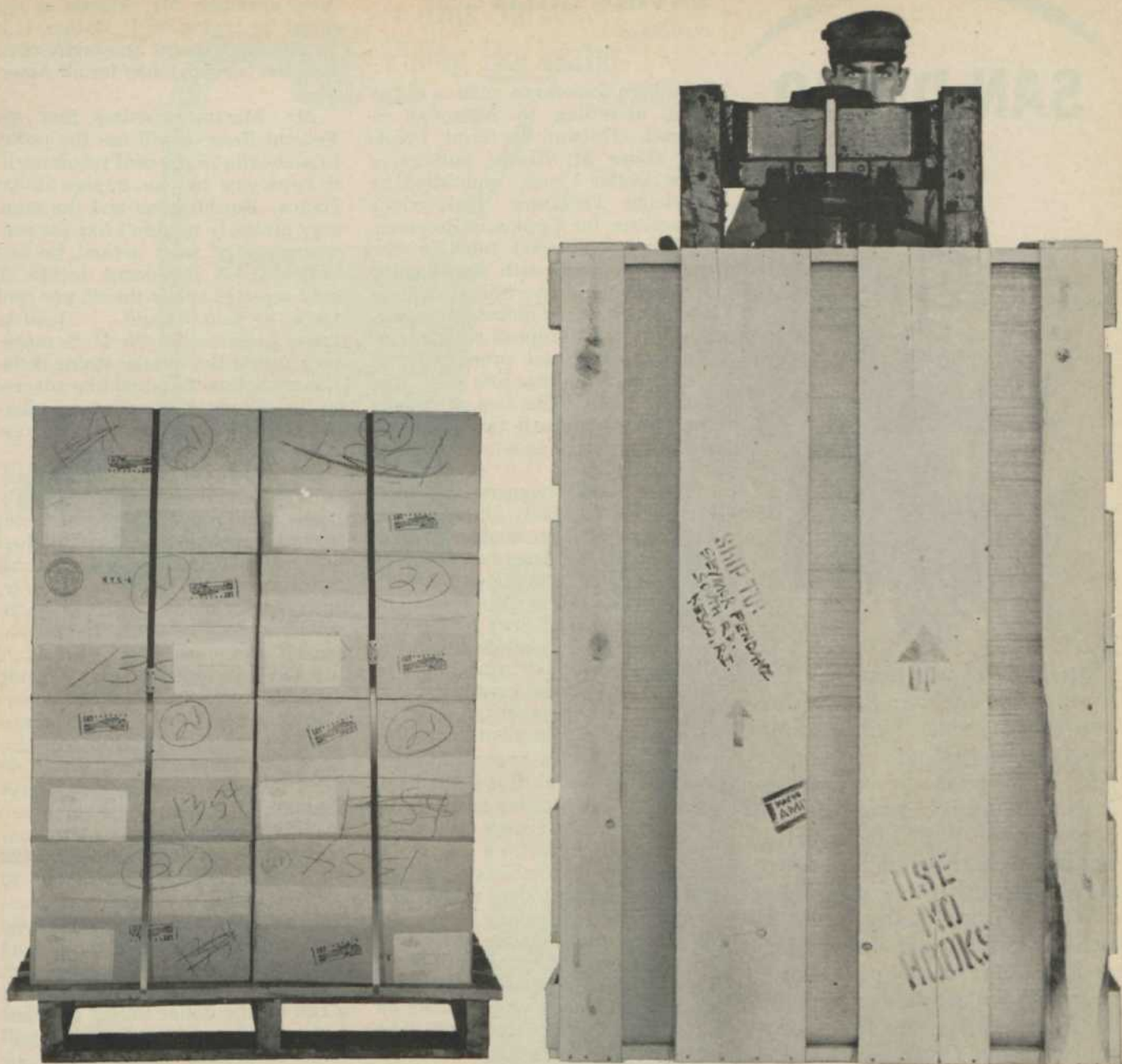
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## SAVING GOLD

*continued*

lems here sometimes make a difference, according to Nasrollah S. Fatemi, Thibaut de Saint Phalle and Grace M. Keefe, authors of "The Dollar Crisis," published by Fairleigh Dickinson University's Committee for Economic Research. "When low interest rates in this country coincide with a weakening of confidence in the dollar, there is a tendency among monetary authorities of some European countries to convert substantial proportions of their dollar holdings into gold," the authors note. "The loss of income resulting from such precautionary shifts is accepted as a form of insurance premium. . . ."

What these foreigners keep their eyes on is the likely ability of the U. S. to pay off claims against it. In this respect, the American economy is like a large bank. The \$15.5 billion of gold is its cash reserve. The over \$25 billion of short term dollar assets held by foreigners amount to checking account demand deposits. As long as business continues good and the bank appears to be managing its affairs prudently, the depositors are happy enough to leave their money there. But if the bank appears to be frittering away its assets and operating with poor management, watch out for a run on the bank. A run on the bank or, in this case, the dollar today would find the U. S. unable to pay off in gold all the potential claims against it.

In fact, only about \$3 billion of the \$15.5 billion in reserves is technically free for use as payments on these claims at the moment. The rest is monetized by a law which requires the Federal Reserve to keep gold equal to at least 25 per cent of the value of its notes and other liabilities in gold.

"Whatever other consequences would follow from a devaluation of the dollar," William McChesney Martin, Jr., chairman of the Federal Reserve Board, warns, "I am convinced that it would immediately spell the end of the dollar as an international currency and the beginning of a retreat from the present world role of the United States that would produce far-reaching political as well as economic effects. It would, in my judgment, invite the disintegration of existing relationships among the free nations that are essential for the maintenance and extension of world prosperity and even world peace."

Scare talk? Possibly to some de-

gree, although Mr. Martin is not noted for crying wolf. Rather, it is an attempt to point up exactly what is in the balance today for all Americans.

Mr. Martin promises that the Federal Reserve will use the power to waive the 25 per cent requirement if necessary to pay foreign dollar claims. But business and the economy probably wouldn't like the consequences of such action, he has indicated. A significant decline in gold reserves below the 25 per cent mark, he said, "could . . . lead to heavy pressures on the U. S. monetary authorities to take strong deflationary action that might be adverse to the domestic economy, or, alternatively, to pressures on Congress to devalue the dollar. . . ."

Mr. Martin didn't go into details. But such policies would certainly mean a slowdown in growth rates for the economy and individual businesses. Since other industrial countries watch America closely, such deflationary policies here would almost certainly be accompanied by cautious protective measures abroad, too, thus slowing down the entire free-world economy.

A slowdown here would mean fewer export sales by European nations and Japan who depend on sales to us to a far greater degree than the U. S. does on its exports to them. Exports account for only four per cent of our total output but 23 per cent of Britain's and about 10 per cent of Japan's. Thus, foreigners have a huge stake in the soundness of the dollar because of the impact of the U. S. economy on their own economy. They aren't likely to start a run on the dollar unless they see real cause for alarm. But they will move to protect themselves if our gold stocks slip too far.

### Support from the I. M. F.

What if the depositors do demand full payment in gold?

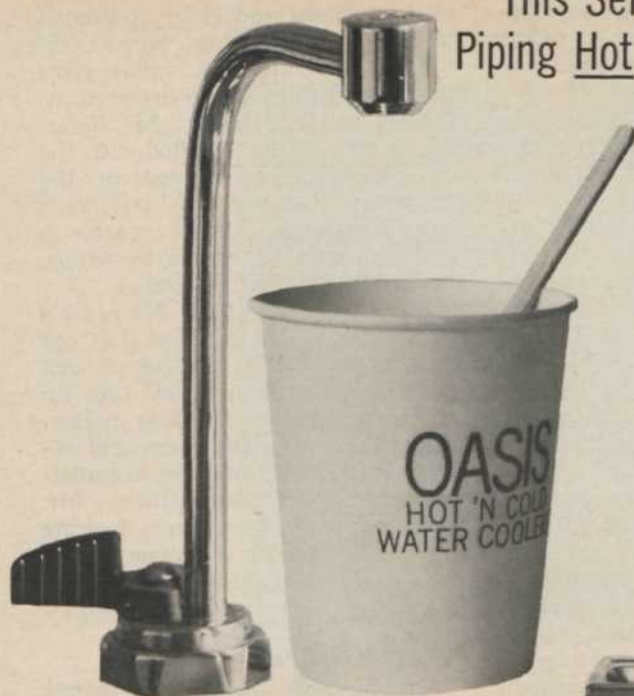
One of the first things the U. S. could—and probably would—do would be to turn to the International Monetary Fund. This 85-nation organization has resources of over \$15 billion against which the U. S. could borrow to shore up its need for gold or other foreign currencies.

The government itself could also borrow funds from friendly countries much as Britain, France and other countries borrowed money from us during and after World War II.

More drastically the U. S. could simply extend its ban on the sale of gold to foreign governments. That would stop the outflow of gold. But,



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## SAVING GOLD

*continued*

economists agree, it would also undermine the value of the dollar in international trade. You would have to pay more dollars to get the same quantity of foreign goods. Confidence in all other American promises would shrink.

The ultimate step would be devaluation of the dollar. If the value of the dollar were reduced, each ounce of gold in Fort Knox would pay off more of the current dollar claims against the country. Theoretically, it would also make U. S. goods cheaper in world markets. A two-for-one devaluation, for instance, would mean that a German who now must pay about four deutschmarks for a \$1 U. S. frozen chicken then would be able to buy the broiler for two deutschmarks.

Competing countries obviously couldn't let the U. S. get away with such a price-cutting stunt as that. So, international economists predict, other nations would immediately devalue an equal amount and America would be left with its same balance-of-payments headaches.

Because of the way the international flow of money works, then, the U. S. depends to a major extent on an intangible quality—confidence of foreign bankers and investors. And like a company operating with heavy outside financing, the U. S. must keep its creditors happy. The way to do this is to bring the balance-of-payments books back into the black.

"We don't actually have to balance the account in one year," says one Federal Reserve system official privately, "but we have to show our intent by cutting the deficit each year until we do cure it."

By following such policies, the government policymakers will weigh all economic decisions against their effect on the balance of payments. This international discipline means that what happens abroad can have a major impact on actions in Washington which could affect you.

Britain, for example, is currently flirting with inflation. So, later this year, Britain may well raise interest rates and take other corrective steps. This action, says William Butler, chief economist of Chase Manhattan Bank, could lead to a fresh flow of funds from the U. S. seeking richer returns in Britain. This outflow, in turn, could force U. S. authorities to raise interest rates here, a move that would affect your business.

Considering everything, how likely is the U. S. economy to reduce the deficit in its international payments balance this year?

The official view—backed by many distinguished private economists—is that the deficit will shrink in 1964.

One such forecast by the National Foreign Trade Council estimates a gap of about \$1.9 billion this year compared with approximately \$2.6 billion in 1963. The deficit, however, has fallen before—only to rise again. It dropped from \$3.9 billion in 1960 to \$2.4 billion in 1961 and \$2.2 billion in 1962 before rising to \$2.6 billion in 1963.

Louis J. Paradiso, associate director of the Commerce Department's Office of Business Economics, figures the balance-of-payments situation will improve this year because exports will rise fast enough to keep pace with increased imports and much American investment money will stay at home instead of flowing abroad. He expects the federal tax cut to bring greater growth in the economy.

As a result "the businessman will find more investment opportunities here," Mr. Paradiso told *NATION'S BUSINESS*. "He can expand plant and equipment spending here rather than looking abroad for opportunities.

"One reason for our continued growth in exports," he adds, "is that other countries foresee economic growth. If they were concerned that their growth would slow down, they wouldn't buy from us."

Mr. Butler expects the U. S. will profit from the fact that other countries are now beginning to pay out more than they earn in contrast to past years. This should mean more payments in the form of increased exports and added foreign investments here.

"I'm more sanguine than some," asserts Mr. Gainsbrugh. His reasons? "We have taken hold of inflation," meaning that most labor costs of U. S. products have held relatively steady while costs in competing foreign countries are rising. "There is a greater recognition by the people generally, in addition to businessmen, of the drag on the economy of high governmental costs and taxes. We are beginning to recognize the limit to what we can do with foreign aid and have begun to cut military spending in Europe."

Certainly not everyone agrees that the American balance of payments troubles are on the mend. Probably the most influential dissenter is Roy L. Reiersen, senior

vice president and chief economist of Bankers Trust Co., New York.

"For the moment, inflationary trends in Europe have diverted attention from the dollar," Mr. Reiersen agrees. "This, coupled with the conspicuous improvement in the American balance of payments since mid-year [1963], creates a real danger that efforts to reduce the deficit will be relaxed. . . ."

Mr. Reiersen told *NATION'S BUSINESS*, "I'm troubled that our commercial trade surplus is not showing much dynamism." As for the argument that inflation in Europe will raise prices there and enable American companies to undersell the local competition, Mr. Reiersen says, "I've been looking for these benefits to show up in manufactured goods and other exports, but I haven't seen them."

### Hit from all angles

Optimist or pessimist, there's general agreement that continued action is needed to prevent a drift toward devaluation and its consequences. "You have to hit the balance of payments from all angles," advises Mr. Paradiso.

Hitting the problem from all angles is more difficult to do than to say, however.

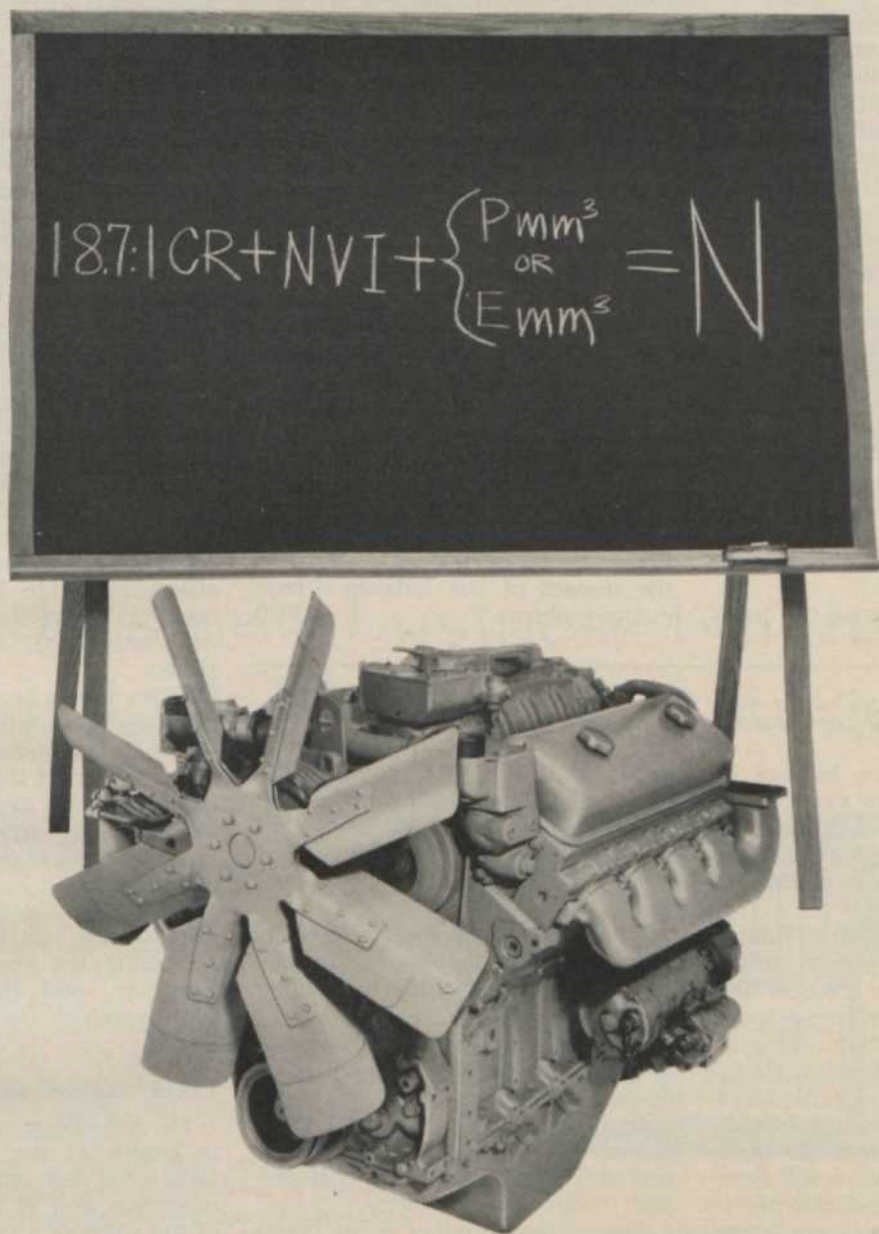
Authorities agree that a key element is whether businessmen hold down costs and prices so that U. S. goods can outsell European and Japanese competition here and abroad. The consequences on this score are clear enough to businesses.

"Transistor radios show what our people can do," Mr. Gainsbrugh points out. "After Japan took over the market from Americans, Westinghouse Electric Corp. and General Electric Co. studied how to cut costs, developed printed circuits and other cost savings and began to recapture the market. But unless we encourage such investment in better technology and constant modernization of our capital equipment, our foreign friends will move in." In many cases companies can achieve competitive costs in their most enticing markets only by moving abroad. Burroughs Corp., for example, is closing its adding machine plant in Detroit and moving production of these machines to Europe and Brazil where labor and other costs are lower.

Labor, on the other hand, has shown reluctance to share in the burden of reducing costs.

Many liberals want the government to restrain the flow of capital abroad. Such action would, of





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## SAVING GOLD

*continued*

course, make it more difficult for U. S. companies to compete in European markets by setting up plants there. But it's questionable how wise such a step would be in the long run. American private investments abroad already result in more income from profits returned here than is the total amount of investment capital going abroad annually.

"We have invested capital in plants in Europe and elsewhere abroad and we produce there," says Louis Putze, president of Controls Co. of America, which makes thermostats and a number of other types of controls. "Because of these plants we export about \$1 million more a year of small motors and other parts from the U. S. than we would have otherwise."

One possible attack on the prob-

lem which gets little attention from economists is higher import barriers. It's recognized that a cut in imports isn't likely to save the country much money because foreign nations would immediately slap similar curbs on U. S. exports.

Nearly all economists worried about the balance of payments praise Administration efforts to reduce overseas spending for foreign aid and defense. But they think still more frugality is necessary.

One economist for a major New York bank estimates the Administration may save as much as \$750 million in overseas dollar outlays this year through planned military and foreign aid expenditure cuts.

Any steps the U. S. takes would bring howls from one part of the economy or another. Ill advised or not, such measures would at least bring to more people's attention the impact of the balance-of-payments problem. **END**

## CREDIT RISK *continued from page 41*

estate ventures." Some lenders, he adds, tend to close an eye when it comes to quality. He and others emphasize that paying high interest rates to savers pressures institutions to make loans.

Factoring concerns and finance companies have lost money, Professor Nadler continues, some in substantial amounts, partly as a result of breaking down the bars. This, he says, is reflected in the stock quotations of some.

There has been a significant shift in the composition of bank assets away from loans based on self-liquidating transactions and sharply in the direction of longer-term loans, based on the ability of the borrower to earn the money to repay. Mortgage and consumer loans have increased, as have holdings of longer-term tax-exempt securities, at the expense of government securities.

A quick perusal of several banks' annual reports, Professor Nadler continues, discloses considerable amounts in write-offs, but the effects are cushioned by large reserves and certain tax advantages.

### **Mortgage failures rise**

Mortgages by savings and loan institutions have raised the greatest question, according to Professor Nadler and many others.

Joseph P. McMurray, chairman of the Federal Home Loan Bank Board, has warned: "I think all

mortgage lenders need to give serious consideration to the underwriting practices concerning mortgages in order to protect the integrity and soundness of the housing and real estate market."

The Bank Board has followed up with a number of steps to strengthen the financial position of savings and loans.

In the mortgage field, experts note that the quality of credit is influenced by the long period of inflation, sustained demand and rising prices for housing. These have served to bail out both borrower and lender in risky cases.

During the period of rising prices a home-buyer in difficulty because of over-all debt could shop around for a new lender, refinance his home on the basis of its newly increased value and thus pull himself out of trouble.

At the same time, a secondary buyer was likely standing by ready to move in at prevailing prices. This is not always the case now that housing prices are more stable.

Recent concern has been based partly on housing foreclosures, which increased from 21,473 in 1953 to an estimated 99,000 in 1963. This represents a rate of 1.49 per 1,000 homes in 1953 and 4.44 per 1,000 in 1963.

Over the same period, the average term of mortgages insured by FHA has increased from 22 to 31 years

and the average down payment has declined from 17 to seven per cent.

Foreclosure rates for VA and FHA have increased. FHA finds that a supply-demand balance in housing has been a major cause for the rise in foreclosures. Its studies also cite local factors such as sharp economic fluctuations, chronic unemployment, interruptions in rapid growth, and reduction of defense and military procurement. But they make clear how mortgages carrying low down payments and longer terms have had the highest mortality rates.

Financial observers note that the lengthening of mortgage maturities exposes the lenders to depreciation risks, and that lower equities resulting from longer terms as well as lower down payments increase the incentive to default.

The five or six per cent dealer commission is also noted by such observers as Dr. Saul B. Klamman, research director for the National Association of Mutual Savings Banks.

"The buyer is already five per cent under water when he buys," Dr. Klamman says. The frequent result: "He drops the key in the mailbox and walks away." He suspects that the full extent of abandonments doesn't show up in statistics on defaults.

"Probably there has been a certain degree of liberality in determining the creditability of the borrower," adds Harry Held, senior vice president, the Bowery Savings Bank.

### **Taxes balloon payments**

He and others note that too little is known of the effects of rising local taxes that can balloon monthly payments and of how depreciation of the value of a property is related to the loan it carries.

"But you can't isolate housing credit as such," emphasizes Mr. Held, since ability to meet mortgage payments depends on a homeowner's entire debt burden, which in turn depends on his own financial management.

An applicant representing a perfectly good risk at one point can go out and load himself up with consumer debts once his home loan is approved, he says. A borrower might ask for relief on his mortgage payments while stubbornly refusing to give up his hi-fi set or basement full of photographic equipment.

John Stafford, research director for the U. S. Savings and Loan League, observes that a borrower whose over-all debt is out of hand





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## CREDIT RISK

*continued*

may sooner fall behind on payments on his house than on his automobile which can be easily repossessed.

Radically different forces, however, influence the more speculative building field, including apartments which have soared to 40 per cent of new residential building starts.

Washington analysts theorize that lenders, who at first were slow in getting into this field when demand rose, may be equally slow in tightening the reins when it slackens.

Several observers note that there is a tendency to overbuild, that the sight of a successful project in one area can lead a developer to conclude that there is demand for more. This may not be the case.

Such projects—and this goes as well for various types of commercial space—are the result of several independent decisions, each of which might in itself represent a sound investment but in total represent a glut on the market when completed.

Add the fact that these projects take a year to 18 months to complete once a commitment is made and this further increases the margin of error. Unlike a home builder who develops a subdivision in sections to meet demand, the builder of a commercial building or apartment must wait for his project to fill up.

Dr. Klamman and others add that there is nevertheless a strong incentive for new construction, especially the prospect of a construction loan followed by a permanent loan, because of special tax depreciation advantages that don't apply to refinancing of existing structures.

With a package of accelerated depreciation and free availability of credit, says Dr. Klamman, "The builder says, 'I can't afford not to build.'"

Of course, the new project may be extremely successful, even if it represents overbuilding, but at the expense of existing projects that must meet their mortgage obligations.

All of which highlights the elusive nature of the quality of credit.

### **Future foreclosure trends**

What may be a good loan today, in terms of the borrower's ability to repay over the long term, must depend on such unpredictable factors as future economic conditions, future demand for the asset on which the mortgage is based, future competition based on such influences as easy credit.

Experts explain that this is particularly true in the residential construction industry, since apartment and single-family categories are not water-tight compartments. Trouble in one sector, in terms of depressed prices based on overbuilding and other factors, can easily spill over into the other.

Some economists are trying to look ahead of foreclosure and bankruptcy figures to get a better picture of long-term trends and the factors influencing them.

They have spotted declines in occupancy ratios and in net income from residential and office rental space in a number of cities.

Several economists and population experts predict that population increases will help fill up available residential space, but others fear that for this to happen demand must increase at a far greater rate than expanding supply.

### **Concern for trade credit**

In the field of business loans, few figures are available that bear on quality. This seems of less concern to most experts since businesses seem to be meeting their financing needs through retained profits, depreciation and trade credit, and by carrying lower inventories in relation to sales.

Washington experts, however, point to the edible oils scandal as evidence that some lenders fail to scrutinize the activities of borrowers.

As the importance of business loans declines, that of trade credit—extended by business sellers to business buyers—increases. Dr. Martin Seiden, who has studied the question for the National Bureau of Economic Research, views this as a crucially important area since it represents a conflict between sound credit policy and aggressive selling.

The volume of past-due credit held by manufacturers in 1959-62 averaged more than 15 per cent of dollar volume outstanding; the rate for wholesalers was more than 25 per cent. Dr. Seiden adds that high cost of collections makes late payment an important source of loss even in the case of fully repaid debts.

In 1960, he says, the dollar volume of bad debt losses to corporations in six major business sectors reached \$1.3 billion—more than the volume of such losses in all other forms of credit combined. He adds:

"The quality of the trade credit extended appears to be a greater factor in the survival of larger firms than of smaller ones. Among failures with total liabilities of more

than \$100,000, some 15 per cent are attributable to receivable difficulties."

### **Average liability worsens**

The Federal Reserve Bank of Atlanta estimates that the average liability of failing businesses has increased from \$40,000 in 1950 to \$80,000. The business failure rate has fluctuated between 56.3 to 64.4 per 1,000 since 1960, up from a low of 30.7 in 1951.

Some analysts in Washington point out that housing costs represent a declining proportion of personal income. Each increase in a borrower's earnings enables him to assume many times that in debt.

On the other side of the coin, even a slight reduction in income can leave the borrower hard-pressed.

Several observers point to a substantial rise in personal bankruptcies as reflecting on borrowers' ability to pay. But William J. Cheyney, executive vice president of the National Foundation for Consumer Credit, Inc., interprets the figures, especially high in some cities, as abuse of the bankruptcy route.

"Plenty of people," he says, "are going through bankruptcy proceedings who can well afford to pay."

Mr. Reiersen believes that the problem of installment debt is less worrisome because repayment schedules are short enough to tip off the lender if he is too lax.

A big question is the long-term effect of home owners' borrowing against their homes for nonresidential purposes. Mortgages, for example, may be enlarged to pay for autos, a college education, or vacations to Europe. Some lenders encourage this kind of borrowing.

So far, one Washington specialist observes, this practice seems fairly well contained. He explains that the rise of mortgage debt outstanding appears in pace with the value of new construction activity and that amortization of debt roughly balances new loans on existing homes.

Chairman Martin of the Federal Reserve Board says: "Whatever the general environment, the hopes underlying speculative ventures can be dashed by subsequent events, with a resultant setback to the particular business involved and a corresponding depressing influence on the economy at large." He also adds:

"Excessive credit ease is just as much an obstacle to sustainable expansion as excessive tightness."

Professor Nadler says the residential mortgage situation is not serious enough in itself to start



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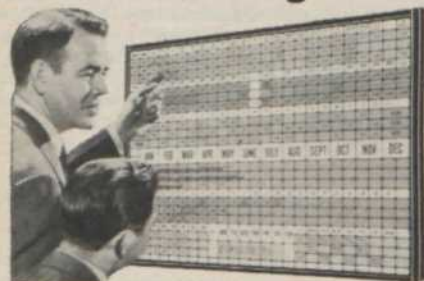
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## CREDIT RISK

continued

trouble, but believes this area of credit would be vulnerable to a general down-turn in the economy and would help feed it. He explains:

"People don't like to lose their homes. So they cut back spending. That has an impact on the economy. Then more people can't afford to pay their mortgages."

In this connection, Mr. Held notes that an overhang of homes on the market helps depress the entire market in an area. At one point recently FHA and VA had some 120,000 units on their hands.

## Economic consequences

Lenders today must follow practices promoting sound returns, says Mr. Held, to enable them to meet future demands for credit on which long-range economic expansion will be based.

In a forthcoming NBER publication Dr. Seiden states a tentative theory about trade credit:

Early in a business expansion risk is low and debt accumulation rises faster than repayment. At some point, however, repayment begins to exceed new debt accumulation, leaving some firms pressed for funds to meet current obligations. "Thus," he theorizes, "while prosperity is still under way, illiquidity and even potential insolvency begin to grip an increasing proportion of businesses."

## Corrective action

As to corrective action, Dr. Nadler notes that the Federal Reserve has increased the discount rate from three to 3.5 per cent, representing a policy of lessening easy credits. And banks seem to be tightening their policies.

Mr. Reieron and Mr. O'Leary say those who oppose higher interest rates overrate the effect of interest rates on business expansion.

Mr. O'Leary believes that higher interest payments, which are tax deductible, would be far less of a damper on business than a deliberate contraction of the money supply.

Much credit outstanding is on a forward commitment basis, he adds, so that business activity based on mortgage credit would not be curtailed as a result of moderate increases in interest rates.

"The main thing to note," says Professor Nadler in connection with mortgages, "is that the Federal Home Loan Bank Board recognizes the danger.

"This time we don't wait until the crisis is upon us. We're taking measures before the crisis develops."

Dr. Klamon and some Washington analysts feel that in today's more complex economic environment the mortgages involved in income-producing projects are needlessly inflexible. The lender scrutinizes the project, looks into a hazy future, then decides whether to make a long-term loan with fixed schedules at fixed interest.

If the project succeeds far beyond expectations, the borrower enjoys all the benefits. If it goes sour, however, the lender often stands to lose far more than the borrower.

More flexible terms—granting the borrower exemption from amortization payments during rent fill-up of commercial space as during construction and giving the lender a greater chance to share in the profits—might well be explored.

## No major crisis expected

All authorities questioned by NATION'S BUSINESS emphasize that credit quality is far from the crisis stage, and even those most concerned urge a policy of watchfulness.

Dr. Moore, in fact, points to another danger:

"Once you do get some indication of potential losses increasing, creditors may hold back on new credit and adopt stricter standards of credit lending, possibly more strict than they need to."

Others agree. The Council of Economic Advisers has pointed out that a major stimulus in the present expansion has been in private nonfarm residential construction.

Many observers, while uneasy about the quality of credit, would be the last to urge such restrictive measures as might kick off the very downturn they want to avoid.

Mr. Stafford says: "We're now incurring fairly normal business risks after having lived in a lenders' utopia almost since the end of World War II."

Howard F. Sunshine, vice president of Manufacturers Hanover Trust Co. of New York, emphasizes that credit may deteriorate in some regions while it is undoubtedly improving in others. He does not view lengthening of loan maturities as a necessary sign of poor credit trends.

Of apartments and other income-producing ventures, he says these must be judged on a case by case basis. Within New York City, for example, one area may be badly overbuilt while there is solid demand only 20 blocks away. **END**



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# YOU'LL LIVE LONGER

Leading research authority tells where big gains in medicine will come in next five to 10 years and offers an appraisal of the health of businessmen

A NATION'S BUSINESS interview with **Dr. James A. Shannon**, Director, National Institutes of Health

MEDICAL SCIENCE WILL WIN important new victories in its fight against illness and death in the next five to 10 years.

As a result, Americans now alive can look forward to lengthening life expectancies.

That's the opinion of Dr. James A. Shannon, director of the National Institutes of Health, the Public Health Service's complex of medical research facilities headquartered at Bethesda, a Maryland suburb of the nation's capital.

Interviewed by NATION'S BUSINESS, Dr. Shannon says impressive gains in the struggle against heart and cancer diseases, our biggest killers, will come in the next five to ten years. He also foresees dramatic progress in the battle against other lethal and disabling illnesses. Some of the progress, he says, will be achieved through the wider and more ingenious use of artificial organs and new drugs.

What lies behind this confident size-up of the nation's health prospects?

Much of his optimism, Dr. Shannon explains, is based on massive research efforts already under way or in the planning stage at NIH

and in other medical research centers. The program which he directs accounts, in itself, through direct operations, grants and contracts for more than 40 per cent of America's current annual medical research expenditures of \$1.7 billion.

A tall, 59-year-old native of Hollis, N. Y., Dr. Shannon has headed NIH since 1955. In this post, and as assistant surgeon general of the Public Health Service, he carries a special responsibility for drawing broad national research policies and coordinating Public Health Service research activities.

Dr. Shannon is widely recognized in scientific circles for his original research in kidney function, and chemotherapy of malaria. He has spent most of his career in research and teaching, but for a time he held an executive post with E. R. Squibb & Son, a pharmaceutical firm—experience which gave him an opportunity to observe close up the health risks of businessmen. He discusses this subject, and others, in the interview which follows.

**Dr. Shannon, how much progress against the big killer diseases can we expect in five or 10 years?**

Well, at the top of the list you have heart and blood vessel diseases. These kill one out of two Americans.

Next comes cancer.

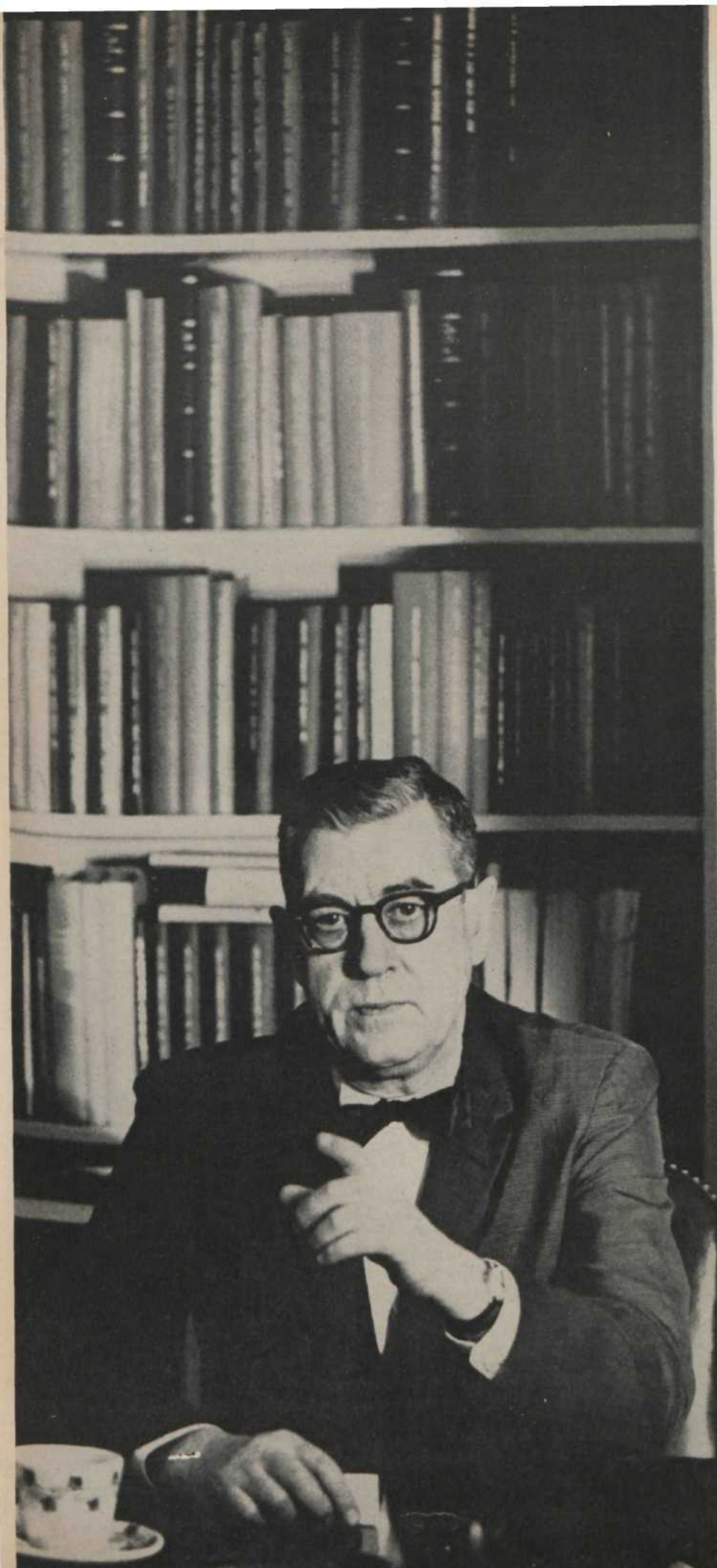
And mental illness is the biggest disabler. These constitute three very large chunks of our medical problems today.

Now, in cardiovascular disease I think one can expect we'll have a definite understanding of the cause of atherosclerosis (hardening of the arteries) and of hypertension (high blood pressure). Whether we'll also have sufficient information to prevent the progress of the disease, I don't know.

But there is enough basic information now to lead to the expectation that one could modify the course of atherosclerosis and its ability to kill, particularly through strokes or heart attacks.

The broad underpinning of atherosclerosis appears to be modified by some hormones. The question is whether you take chances on feminizing side-effects from hormones or take chances on the heart attacks. These hormones give you an opening wedge, a line of approach for better understanding the





disease. It is quite likely that other remedies will come along that will retard the process without at the same time producing any undesirable side-effects.

**Are we near any substantial advance against cancer?**

Yes, there are promising areas. We're beginning to get a truly basic understanding of the relationship of virus infection of cells to development of tumors. Out of such an understanding can come vaccines and a better understanding of the disease so chemicals can be designed more effectively to curtail various cancerous growths. Chemicals are beginning to emerge that will be useful in destroying or, at the very least, retarding cancer.

One agent is methotrexate used against a particular cancer of the uterus. This is the first seriously malignant tumor that has been found to be wholly curable in a substantial proportion of patients with a chemical. Other chemicals have shown themselves effective in retarding leukemias—things of that sort.

So I think in the cancer field you can look for quite striking advances.

The problem is whether those advances will radically modify the general risk to the cancer patient, primarily because the advances probably will come bit by bit in specific types of cancer.

We have multiple cancers, just as we have multiple diseases caused by viruses and by bacteria. What may be highly effective in one may be ineffective in another.

**Do you anticipate that in five to 10 years we will have a generally curative cancer vaccine?**

No, I don't think so. I don't think there ever will be a cure-all cancer vaccine. In five or 10 years there will be a number of types of cancer that can be dealt with either in conjunction with vaccine or modified or cured with a chemical.

**Could you identify some specific cancers which you feel may be conquerable in five or 10 years?**

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## LIVE LONGER

*continued*

to patient. The assessment of a remedy, the assessment of what net change or what net benefit one has achieved is easier to determine here than in other forms of cancer.

### Are there other areas of research where you expect promising results?

Yes. I think cell biology is one of the most exciting and active areas of current inquiry.

Some really important new things have been learned about the human cell in recent years.

Some day, building on this growing knowledge, we may be able to curb inheritable diseases and defects.

Couples planning marriage, for example, through a pre-marriage check-up, will know reasonably well the genetic risks in their marriage.

It may be possible to reduce or actually eliminate the hazard of couples producing children who are deformed or diseased.

This is still far off, but is a very reasonable expectation.

### Will the big killer diseases in the United States in the future be substantially different from those we know now?

I think they will be the same. But I think the age of their appearance, hopefully, will be different.

Let's take heart disease. You have to die of something. Put it that way. And it's likely that the more things you prevent, the more people will die of heart disease.

Now, this is not because heart disease itself is not better understood and better handled. But what you expect in the advances in cardiovascular disease is to curtail the heart attacks in the thirties and forties, the early high blood pressures that are killing in their effect.

But if you stop them in the thirties and the forties and the fifties, as I say, you have to die of something, and it seems most likely to me that the cardiovascular system will still be 10 or 20 years from now the biggest immediate cause of death. But it will be death in older age groups than now.

### So we can look forward to people living longer?

This is right.

Now, from the standpoint of cancer experiments, I can foresee a great reduction in deaths from cancer in a 10 to 20 year period.

As we get a broader understanding of precisely what contributes to cancer, then the way to use that information effectively is to cut off the causes at their origin rather than do anything to the individual, so that you reduce the hazards to the individual.

If the present research approach on viruses is as successful as we hope, we may in this time have some preventive means that will begin to affect life expectancy.

### Businessmen and others who carry responsibility seem to work at a rather tense pace, drive themselves hard. Do you feel that the businessman faces particular health hazards?

First, I would say that I don't think the businessman works any harder now than he did 10 or 20 years ago. I think the successful businessman always worked hard and drove himself pretty much to his capability.

I say that having worked in industry for three years. The experience gave me a great deal of respect for the ability of the American businessman to set serious tasks for himself and go out and do them.

I was with Squibb Institute for Medical Research. But the point is that I also was on the board of directors of E. R. Squibb & Son, and I was on the executive management committee of the corporation, so that I had to solve problems other than just those in the laboratory. I had to concern myself with the affairs of the corporation. In other words, I had to participate in the meeting of a payroll.

Businessmen frequently like to say to a scientist, "Hell, you never had to meet a payroll. You don't know the pressures we're under." This type of thing. Well, I have seen that pressure.

In point of fact I think that American businessmen in general, the sensible ones, take care of themselves pretty well. They work hard, and they play hard, but by and large they also provide themselves with reasonable relaxation.

Take the typical successful businessman in New York. He generally will have a summer place outside, and generally he will take a pretty good vacation, and generally he will take a few weeks off in the wintertime. And in general he'll keep himself in pretty good condition.

### Do you recommend a particular health routine for businessmen?

No. I would say that he needs no special rules. The only general



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## LIVE LONGER

*continued*

rules, as far as I can see, are to eat a well rounded diet, get enough sleep and don't put on weight.

### And get relaxation?

And get relaxation. But I think our business people do remarkably well.

**Do you feel that the doctor-patient relationship has deteriorated in the United States?**

I think beyond any doubt that the image of the physician in the mind of the average person has deteriorated in the past 20 years.

**Why? Because doctors don't make house calls as much as they used to?**

I think it may be something much more subtle than that.

Twenty or 30 years ago a physician didn't really have much he could offer a patient. Very few drugs. He had aspirin or morphine or codeine for pain. He had digitalis for a failing heart. He had insulin for diabetes. He had a series of fully standardized hormone preparations. And that was it. Nothing for arthritis. He really could do nothing in the way of broad surgery for many of the quite complicated things. He had some vaccines for some of the childhood diseases but none for some of the important diseases.

So if a person came down with pneumonia, you gave him good nursing care, and he survived or didn't, and about 20 per cent died.

Well, in a situation like that the physician as I saw him when I was young—I finished medical school in 1929—played a very important supportive role to the family when you had a seriously ill person. He was the only one who had any understanding of what was going on. He was the only one who could do anything, and although what he could do was limited, he spent a great deal of time both with the patient and with the family.

And when he made a house call, as was conventional in those days, he was welcomed by the mother if she had a sick child, by the father, and this type of thing.

At the present time the physician brings to the patient a tremendous amount of highly technical information. In many cases he has very definitive therapeutic drugs, preventive drugs, a large array of vaccines, a good understanding of nutrition and the ability to deal

in a definite way with a great many ailments.

This puts him in the position of being much more impersonal in his approach to the patient, much more of a technician than a family friend, if you will.

I think this is basically the major reason for the change.

In addition to that, the physician, as well as the lawyer or the businessman, leads a more leisurely life now than he did 30 or 40 years ago. Doctors today take vacations. They don't want to be up all night every night. They refuse to. They provide other mechanisms. So that the doctor is no longer always at the other end of the phone whenever anything happens.

Well, I don't think this is because the doctor has changed. I think this is because society has changed. We now have a 40-hour week. We work five days instead of five and a half or six. We're unwilling to be satisfied without substantial leisure time, whether you're a clerk in a shoe store or a physician or a scientist. In fact, I don't think scientists work now nearly as hard as they did when I was a youngster.

So, again, this has caused the patient to feel, rightly so, that the doctor doesn't exist only for him and his family. The patient or the patient's family now can get as frantic today as they got 20 years ago, but whereas the physician could not deal as definitely with a problem 20 years ago, he was willing to deal with the family and give it emotional support.

I think that everybody worked harder 30 years ago than they do today. I think it would be ridiculous to say to the medical segment of society: We're going to make you work just as hard in the '60's as you worked in the '20's. Problems today are quite different than they were in the '20's.

**The medical help is there? It's simply being given in a different way?**

That's right.

**Do you feel the number of young men studying medicine is sufficient?**

Well, we will have 10 years from now, I would guess, about the same ratio of physicians to population as we have now. And it seems that this is a reasonable ratio.

One of the things that is quite controversial and that remains unsolved is not the number of physicians but how effective they will be 10 to 15 years from now if our society does not develop a pattern

*(continued on page 112)*





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With a crash helmet.

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**Note:** This advertisement does not reflect our opinion alone. The Model 4 Adding Machine has already received heaps of praise. Even from top competitors.

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The National Chamber's 52nd Annual Meeting—in Washington, April 26-29—will be an interesting, exciting and stimulating meeting.

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It will, in fact, involve more different business and professional men, more different industries, and more different parts of the country than any other meeting of the year.

What manner of men will be here for this big and important meeting?

We can answer this question for you—we know from other years.

The person who attends the National Chamber's Annual Meeting, man or woman, is the person who wants to be *better informed* about developments in national affairs. He is the person who is concerned about today's situation, and who wants to do something about it.

If this description fits you who are reading this ad in *Nation's Business*, you will be here in Washington, April 26-29\*—for the National Chamber's Annual Meeting.

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2. You will renew old acquaintances and meet new people from everywhere, men of ability, and have a chance to exchange thoughts and ideas with them.
3. You will have an opportunity to talk with your Congressmen on a face-to-face basis and to get better acquainted with them.
4. You will have an opportunity to take part in the down-to-earth discussions of practical matters at the various workshop sessions of the meeting.
5. You will have an opportunity to help the organized business movement make its basic plans and set its course of action for the year ahead.
6. You will go back home with a new light in your eye, with new perspective, background and factual information which you can use in making your own plans for the future. You will go back home better equipped to exercise your personal leadership in your own community and on the national scene for the good of the economy and for the long-range good of the country.

\*In the spring, the weather in Washington is magnificent. Bring your wife and family with you—and, after the Annual Meeting, continue on to New York to the World's Fair.

For further information—and for a list of those in your city who are planning to be here for the National Chamber's Annual Meeting, April 26-29—get in touch with your local or state chamber of commerce. Or write:

## Chamber of Commerce of the United States

WASHINGTON, D.C. 20006



## LIVE LONGER

continued

of continuing education for physicians. The technical base for the practice of medicine is changing so rapidly that it's difficult for me to believe that a physician who graduates today at age 25 and practices for 40 years, in the absence of some systematic built-in, continuing education, will be an effective contributor at age 65.

### Keeping abreast, in other words, of new knowledge?

Yes, but in a highly systematic way. It's done haphazardly now. Medical schools have postgraduate courses. Men go or not as they choose. Certifying boards provide for certification in specialties at one point in time. Medical licensing depends upon a certain minimum knowledge at a given time, and it

is assumed from there on that the physician will maintain himself current with the advances of science.

I think this was quite reasonable to do in the '20's and the '30's and perhaps even in the '40's, but as the type of information now becomes more and more sophisticated it requires a broader understanding of fundamental processes if the physician is to be a continuing, thoughtful man who really understands that which he does and is able to make a suitable selection of alternative routes by which his patient can be treated. He will have to have more than he can get now in the way of a continuing education.

### Is there any major disease which you feel could be completely eliminated through some new medical attack involving a massive research effort?

Well, I think the best prospect here is being approached now, namely, a fairly massive effort to understand and define the cause of hardening of the arteries.

One research group proposes to manage the diets of several hundred thousand people for a period of five to 10 years in order to see whether they can eliminate atherosclerosis to a substantial extent.

You might also say that respiratory ailments, including the common cold, are under intensive, highly engineered attack. These are disabling diseases. They cause disability, but not death. They are of importance to the businessman because they are the primary cause of absenteeism.

There are a series of experimental vaccines under development now, because it has become possible through multiple identification of viruses to pin down the cause of about 65 per cent of all upper respiratory diseases caused by viruses. Some of them in certain age groups individually can account for as much as 40 per cent of all respiratory disease in that group.

So it's not impossible, with a mixed vaccine, to prevent a very large proportion of those.

These are the only large engineered efforts that really have prospect of real success, and I don't see on the horizon undertaking any others of a comparable nature, at least not in the immediate future.

### Do you feel we may have, in 10 years, extensive transplanting of organs?

Well, it's partially successful now in the case of the kidney. There are very extensive studies going on now in a number of laboratories that are trying to determine how

the body's resistance to a foreign organ can be suppressed long enough for the new organ to take hold. I think there's reason to believe that it will be possible to achieve more transplants.

I think much sooner, however, there will be very dramatic developments in pumps and pump-aerator devices that will permit—for substantial periods of time—the complete release of the heart from its burden, perhaps when it's under particular stress.

We're pulling together all the people who are interested in this phase of work and seeing what they need in the way of additional engineering know-how.

### Apart from heart applications, where else do these devices have promise?

An analogous situation is the so-called artificial kidney, where it's been demonstrated that with two treatments a week, you can carry a patient with no kidneys for an indefinite period of time.

The trouble at the present time is that it costs a well-run clinic about \$10,000 a year just to maintain life for this individual.

### For one patient?

For one patient, yes. That's assuming he's one of a group. If you have a group of eight or 10 patients, this is about what it costs per patient.

Now, again, this is under study from the standpoint of engineering design in order to determine whether it is possible to take this very complex engineering system and simplify it so that it can be used in a simple medical setting. The period of application, or wash-out, under present conditions is pretty close to 24 hours once weekly. This must be done in a hospital.

Now, if this can be modified and simplified, it is conceivable that it could be done in a simple medical setting with suitably trained personnel and would not require the extraordinary range of skills that presently are needed.

This is where the engineer's skill and know-how come in. The problem is well suited for a design engineer, much more so than the biologist who can define the problem but may not have the skills necessary to find an answer.

### Are there any other new, unusual solutions to illnesses in prospect?

I can tell you some of the hopes of some of the investigators.

There is at the present time no real fundamental understanding of

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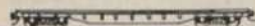
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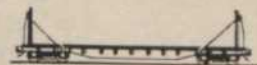
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13 locomotives



50 covered gondolas



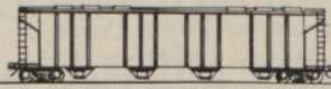
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hopper cars



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## EXECUTIVES WANTED

You have heard the saying—"A good man is hard to find." Good men are indeed hard to find and it is no secret that all business organizations are engaged in a constant search for executive talent. The specialized problems of modern business management place a high premium on men able to cope with these problems.

Trade and professional associations, chambers of commerce are also in on the hunt. Their quarry is the executive talent needed to direct and give muscle to these voluntary organizations. It takes unselfish, energetic people who are highly motivated—people who find satisfaction in making their skills available to their communities, their industries, their country.

These organizations need both skillful executives on their professional staff and outstanding individuals to perform the invaluable voluntary committee work. This work constitutes the mainstream of association work. It is the heartbeat of any organization's program.

You can be an important factor in locating "good men" for your association. You know them—men with solid backgrounds, widespread experience, and the ability to guide and formulate policy. You see them at lunch, after work, on the job. Encourage them as you are doing, to take an active part in the association that serves your profession or field. Your example will mean much.

By the way—there is one best place to look when seeking qualified staff executives for your trade or professional association or chamber of commerce. For an association executive, write to the Association Service Department of the National Chamber. For a qualified chamber executive, write to the Local Chamber of Commerce Service Department of the National Chamber. They will send you resumes of leading executives seeking organization jobs.

## POINTERS FOR PROGRESS

through trade and professional associations

## LIVE LONGER

*continued*

any of the important diseases of the nervous system, particularly multiple sclerosis and amyotrophic lateral sclerosis, a disease of the nervous system which usually appears in adults. These are the big disablers in neurological disease.

But there has accumulated during the past three or four years a great deal of evidence that suggests that these diseases may, in fact, be started from viruses, with the initial infection quite far removed from the appearance of the disease itself.

All of these things will continue to improve over the next five or 10 years, but I don't think we will have the definitive solution for any of these problems by that time.

**We hear a great deal about mental illness in America. Is its increase related to the way we live?**

I think so. But the relationship is a curious one. The average individual is exposed now to much more environmental stress than he was 10 or certainly 20 years ago.

**Then the stresses have risen significantly?**

Oh, I think so. The whole problem of urbanization in itself creates new stresses, and we are rapidly developing into an urban population.

The environment of the home and the strong support that a family center gave to our rural communities both protected the individual and limited his exposure and at the same time provided a local means of carrying the inadequate person without need of outside help.

In the larger homes of 30 or 40 years ago, the older person who was mentally incompetent could be contained within the family unit.

But in urban living, with small houses, with a predominance of apartments or two- or three-bedroom houses, there is less capability for this.

**Is the United States ahead of, abreast of, or behind the Soviet Union or any other advanced country in medical research?**

Put it this way: I think we have very good evidence that we're considerably ahead. However, the best medical scientists in the Soviet Union are no better or worse than our best medical scientists, and we have had enough interchange to know this.

On the other hand, our strength is in depth, and their strength in





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## LIVE LONGER

continued

terms of really top-flight scientists is much more limited in numbers in proportion to the problem.

In certain fields we far outstrip them. In other fields they probably have a lead.

Do you look for the Russians to burst upon the world with any breakthroughs in medicine in the near future?

No.

What percentage of the nation's annual \$1.7 billion medical research investment is federally supported today?

About 60 per cent.

Do you feel that it is desirable to maintain a balance of about that amount?

I don't think there is anything magic about it, but the present proportion seems reasonable, workable, and effective.

From what you know of medical research outside of government, do you feel there is more that could and should be done there, or do you feel they are working about at their rated capacity?


I think that we are still in a period of growth, and I think over the next five years there will be a substantial increase in the expenditures that support the medical sciences, because some of the areas we haven't talked about are just beginning to be developed.

For example, our stake in behavioral sciences right now is minimal, and yet locked within the knowledge that will be derived in those fields are understanding of the learning process, development of speech, the origins of our emotions, the understanding of the problems of the developing child.

It is out of such studies that will come answers that are applicable to problems of juvenile delinquency, to problems of drug addiction in the young, to behavioral problems of children generally; not from the study of the disabled child but, rather, studying the beginnings of these disturbances against normal evolutionary processes.

Broad areas that are yet uncovered have to do with the developmental process of the human himself, the factors that affect his development before birth, many factors that relate to the inherited composition of a child, and, in fact—at a later time—perhaps the ability to modify that composition. **END**





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## WHAT ARE THE FACTS?

---

Within the first 10 days of this month, the President must report to Congress on the nation's manpower outlook.

Specifically, he's required by law to deal with unemployment resulting from automation and technological change.

So you can expect a new outbreak of headlines picturing automation as an evil which destroys jobs.

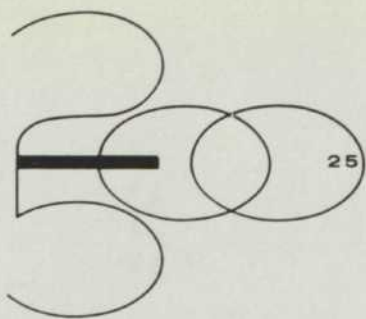
What are the facts?

About five and a half per cent of the labor force is unemployed. Nobody is happy about that. But it's not something that developed recently because of automation. In 1900 the rate was five per cent. In 1950 it was 5.3.

Meanwhile the number of jobs has soared. Almost 70 million Americans are employed today. That's 10 million more than 15 years ago.

The government manpower report will contribute to a better understanding of the nation's outlook if it points out that automation and other technological changes have created many of these new jobs.





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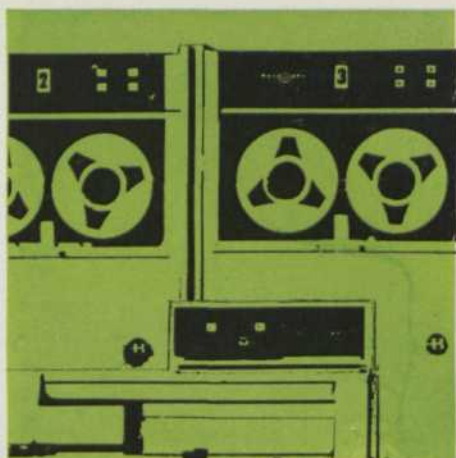
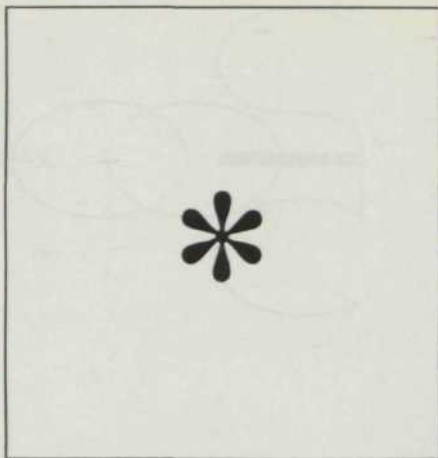
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**OPTIONAL FEATURES?** Magnetic stripe ledgers, punched tape or cards as required. **COSTLY?** Definitely not! We can prove the best cost/result ratio available.

**WHAT ARE ITS USES?** Any accounting or figuring requirements that include computation, data analysis or distribution without sacrificing the decision-making advantages of daily updated unit records.

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